

THE POLARIZATION OF MEXICAN SOCIETY:

A GRASSROOTS VIEW OF WORLD BANK ECONOMIC ADJUSTMENT POLICIES

Prepared by

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for the

NGO Working Group on the World Bank

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PREFACE

Success stories often rely on a one-sided version of reality. If the international financial institutions, the mainstream press and the Mexican government claim that Mexico's performance in implementing structural adjustment policies make it a model to be followed, perhaps we should hear first hand what the supposed beneficiaries of those policies have to say about the impact of the economic program on their everyday lives.

In addition, the 50th anniversary of the Bretton Woods institutions in 1994 is a good occasion for an assessment of how the World Bank and the International Monetary Fund -- the chief promoters of adjustment policies -- are serving their stated global purpose: fostering sustained economic growth while tackling poverty.

Invited by the NGO Working Group on the World Bank to undertake a case study of the impact of adjustment in Mexico, we in Equipo PUEBLO talked at length with peasants and food producers in Chihuahua and with women in the San Miguel Teotongo slums of Mexico City. They gave us their sense of what the economic policies of the past decade have meant for their families and their communities.

The bulk of research for this case study was concluded in August 1993. However, four important events after that date prompted us to update the text: first, a very fruitful discussion with the members of the NGO Working Group on the World Bank and World Bank staff, which took place in Washington, D.C. in October 1993; second, the adoption of the North American Free Trade Agreement later in the year; third, the subsequent Chiapas uprising; and fourth, the continuity of the 65-year-old regime of the Partido Revolucionario Institucional (PRI) with the declaration of Ernesto Zedillo as the winner of the August 1994 presidential election.

Many people have helped to bring together different elements of this study. David Barkin, Jorge G. Castañeda, and Ifigenia Martinez read drafts of the study and made very insightful comments. Silvia Whizar worked with us in deciphering the regional impact of adjustment in southeastern Mexico. Colleagues from the Forum of Mutual Support (FAM) and other fellow Mexican NGOs and pro-democracy citizens' groups contributed their views on what an alternative approach to development should be built upon.

In the era of economic integration, it is natural that an increasing cooperation between Southern and Northern NGOs should emerge. This is the case of the five-year-old partnership between The Development GAP (D'GAP) of Washington, D.C., and Equipo PUEBLO. We at Equipo PUEBLO would especially like to thank Doug and Steve Hellinger, Karen Hansen-Kuhn and the rest of D'GAP staff for their extensive assistance in this endeavor and their continued support of our efforts.

We are grateful to other external readers from the NGO Working Group on the World Bank, namely Michael James and Jaime Ruiz Tagle, for their insights from a Caribbean and Chilean perspective, respectively. Finally, we thank in a very special way Marcos Arruda, the helmsman who provided essential orientation in arriving at good port.

FOREWORD

The NGO Working Group on the World Bank (NGOWG) has been interacting with the World Bank since 1981. Its main purpose has been to promote, facilitate and support a dialogue on policy issues between the Bank and a variety of organizations in the international NGO community. The Working Group also recently committed itself to facilitating the development of partnerships among NGOs, grassroots groups and allied constituencies on all continents for the purpose of enabling groups on the ground to better monitor Bank policy and practice and participate in the dialogue with the Bank and other official institutions at the national and international levels. Toward that end, the Group's 26 members decided to hold annual regional meetings with the participation of other NGOs and popular organizations starting in 1995.

In 1989, the NGOWG produced a Position Paper, which included a broad analysis of Bank-promoted policies and proposals for reform and policy change. The paper met a strong reaction among Bank officials, who produced a written response. In order to bridge the gap in perceptions of local realities and to root future discussions of general policy issues in concrete evidence, the NGOWG decided in 1991 to engage, with the Bank, in the elaboration of field-based case studies on the Bank's market-oriented policies of structural adjustment (SAP), focusing on their economic, social, gender and, where possible, environmental impact.

In the end, three case studies were prepared on Mexico, Senegal and Sri Lanka by NGO consultants without Bank involvement. They were presented at the annual NGO-World Bank Committee meeting in Washington in October 1993. Work groups were formed with NGOWG members and consultants, on the one hand, and Bank staff and consultants, on the other. Each work group prepared a report on the proceedings, including proposals emerging from the discussions.

The main conclusion of the Mexico study, as presented in Washington, is that the country's adjustment process has failed to achieve its two principal stated goals of sustainable economic growth and the long-term alleviation of poverty. Relative macroeconomic stability has been achieved but with very high social costs for the country. The Mexican poor have suffered the most over the past decade, while the benefits have gone mostly to the wealthy, who control the assets in an economy increasingly dominated by the market as the government disengages from most areas of economic planning. Long-term development prospects have been undermined and the economic polarization of society has been greatly exacerbated. The World Bank participants at the 1993 meeting made a number of critical comments and suggestions regarding the content of the study, and these were taken into account in the rewriting and editing of this paper.

Using the opportunity of the 50th anniversary of the Bretton Woods institutions, the NGOWG has chosen to focus its attention on the World Bank policies of poverty reduction. The NGOWG critique of this policy, however, points to the need to focus on SAPs and to orient economic-reform programs toward directly addressing the needs and priorities of the poor, making poverty eradication a strategic policy goal of the World Bank's interaction with borrower governments. This will require dealing with the structural factors of impoverishment, including: the lack of power of the poor in the market; the concentration of

I. INTRODUCTION

On 1 January 1994, the North American Free Trade Agreement (NAFTA) among Mexico, the United States and Canada came into effect. Three and a half months later, on 14 April, Mexico was admitted to the Organization for Economic Cooperation and Development (OECD), the 25-member club of industrialized nations. These partnerships arguably speak for the success of Mexico's economic program, which was forged along the lines of a classical "structural adjustment" program in conjunction with the World Bank and the International Monetary Fund (IMF). However, in spite of a balanced public budget, a drastic reduction in inflation from triple digits to a single digit and an unprecedented flow of foreign investment, the country is still plagued by widespread poverty, an increasing concentration of wealth, and a lack of political democracy.

During the past six decades, Mexico's authoritarian political system has generally managed to keep discontent under control through consensus, co-optation, patronage and outright repression. However, since 1982, economic hardships for the majority of the population, the erosion of the political system, and increasingly frequent outbreaks of social discontent have reshaped the national landscape. A series of events in 1994, including the Declaration of War by the Zapatista Army of National Liberation (EZLN) in January, the assassination of presidential candidate Luis Donaldo Colosio of the ruling Institutional Revolutionary Party (PRI) in March, and the murder of PRI Secretary General José Francisco Ruiz Massieu in September, illustrate the inability of Mexico's political system to deal with extreme economic polarization and internal political disputes. It is becoming increasingly clear that the imposition of top-down, belt-tightening, wealth-concentrating policies is no longer feasible in Mexico without fostering even greater social upheaval.

This study assesses the impact of structural adjustment policies on the national economy and on two sectors of Mexican society from a grassroots perspective. While recognizing that stabilization and adjustment in Mexico have achieved some macroeconomic successes, the paper addresses the economic and social costs of these policies, with a special focus on the poor and on sustainable and equitable development. In addition to analyzing the policies and their impact on each of the sectors, alternative approaches are recommended.

We focus on two social (and geographical) sectors of Mexican society in order to give a first-hand account of the impact of adjustment on people's lives. The two case studies look at the impact of SAPs on:

1. small-scale agricultural production, through the experience of a federation of small farmers producing corn and beans in the northern state of Chihuahua; and
2. consumption among the urban poor -- with a special focus on women -- in the Mexico City neighborhood of San Miguel Teotongo.

In both studies we combine macroeconomic data with personal accounts to provide a more genuine picture of the social and economic reality faced by each population group.

The program in its second phase (1987-present) has concentrated on economic stabilization, while expanding and consolidating privatization and financial- and trade-sector reforms. The most significant change has been the inclusion of a stabilization "Pact" in the second phase. The Pact is an agreement among the government, the business sector, and official labor and peasant organizations designed to control prices and wages (and thus inflation). It is modified and renewed each year to reflect the government's changing economic priorities.

By balancing economic liberalization with neo-populist policies, the Salinas Administration has been able to maintain support from traditional social sectors. This has kept the economic stabilization program afloat. However, as neoliberal policies reduce the power of the state and further marginalize the poor, it is becoming increasingly difficult to maintain such a balance.

B. EXTENT TO WHICH ADJUSTMENT PROGRAMS HAVE ACHIEVED THEIR GOALS

According to the World Bank, the purpose of a structural adjustment program is to "restore sustainable economic growth and make lasting progress in alleviating poverty."³ In Mexico, the average rate of economic growth was zero percent during the de la Madrid Administration (1982-1988) and only 2.2 percent -- barely above the rate of population growth -- during the Salinas Administration (1988-1994). Meanwhile, even government indicators point to increased inequality and poverty over the past decade in Mexico. The National Household Income Survey for 1992 of the National Institute of Geography and Statistics (INEGI) shows an increased concentration of income for 1988-1992.⁴

Since 1988, the adjustment program has been relatively successful at stabilizing macroeconomic conditions, which is an important factor in achieving sustainable growth. The improvement of economic indicators, however, has not meant an improvement in the standard of living for the majority of Mexicans. In fact, much of the economic growth has been at the expense of the poor and working class, who have seen their standard of living fall over the past decade as wealth has become more concentrated.

Below we highlight some of the results of adjustment in four sectors -- the public sector, trade, the finance sector, and the labor market. Policy reforms in these sectors have had mixed results. It is apparent, however, that even when short-term objectives are achieved this does not necessarily contribute to two supposedly important goals of adjustment: sustainable economic growth and poverty alleviation.

1. Public Sector Reform

Public-sector reforms are meant to restore a fiscal balance, reduce the role of the state in the economy, and make the public sector more efficient. To do this, policy actions include a reduction in public expenditures and the privatization or restructuring of state enterprises. In Mexico, public-sector reform initially concentrated on balancing the budget, but gradually the role of the state was completely transformed.

The privatization of state companies has earned the Mexican government over \$26 billion in revenues, but has also led to a greater concentration of wealth and an increase in private monopolies. According to a World Bank report:

...there has been a worsening of the already skewed and concentrated pattern of ownership distribution in the economy and an increase in vertical integration. Only a small group of local conglomerates have been involved in purchasing public enterprises. To a large extent, this outcome reflects the current ownership pattern in Mexico, and not the effects of divestiture per se. Mexican policy makers have not yet, as in some other countries, used divestiture as a major tool to avoid further asset concentration and distribute ownership more widely in the economy...¹¹

Passage of a law in 1993 to enhance competition and the appointment of an official to combat monopolistic practices have not prevented the degree of monopolization from increasing in practically every sector of industry.

2. Trade Reform and External Balance

As part of the adjustment process, a major trade liberalization program was launched that was designed to open up the domestic economy and fully integrate it into the global economy. The program included the removal of tariff and non-tariff barriers, the elimination of subsidies to import-competing industries, and currency devaluations.

► *Trade Liberalization.* According to the World Bank, trade liberalization is the centerpiece of the adjustment program. The World Bank gave Mexico two \$500 million loans in 1985 and 1987 designed to support the reduction of tariff and non-tariff barriers and to simplify the tariff structure. In the midst of the trade liberalization program, Mexico became a signatory of the General Agreement on Tariffs and Trade (GATT) in the summer of 1986.

The abrupt liberalization of trade has resulted in an enormous trade deficit (\$23 billion in 1993). The Mexican government insists that the trade deficit is manageable because the inflow of foreign investment and the repatriation of capital are sufficient to finance it and because the bulk of imports consists of both capital and intermediate goods, which help to increase production or enlarge productive capacity. However, studies show that the manner in which the Bank of Mexico classifies imports makes it impossible to determine whether they are consumer, capital or intermediate goods.¹²

Trade liberalization has succeeded in increasing and diversifying exports and thus increasing export revenues. At the same time, however, many domestic small industries and producers (including agricultural producers) were unprepared for the opening and are unable to compete with cheap imports. Many of them have gone out of business or turned into retailers for U.S. manufacturers. One businessman put it this way: "If you own a business that is worth 100 pesos, and you need to invest another 100 to make it competitive, you may decide that the prospect of facing very tough competition from South East Asian or American producers is not as inviting as quick, high yields in the stock exchange or the money market."¹³

► *Interest Rates.* Extremely high real interest rates -- maintained to attract foreign investment and prevent capital flight -- have created a serious credit problem for domestic industries, which have to compete with U.S. industries that receive credit at much lower interest rates. The beneficiaries of this policy are big industrial, service and commercial conglomerates. A vicious cycle has emerged: interest rates cannot be reduced because it would encourage capital flight, but high interest rates lead to economic stagnation, and economic stagnation means reduced investment.

► *Banking Sector Reforms.* There has been an extreme concentration of financial assets in Mexico. Commercial banks, brokerage houses, investment banks, currency-exchange houses, and other financial institutions have merged into newly formed "financial groups". Two of these groups, Accival-Banamex and Vamsa-Bancomer, account for one half of all financial assets. Approximately 180,000 individual accounts (out of 25 million) command 80 percent of total assets in the financial system. The financial groups are concentrating on the more profitable corporate banking operations, rather than expanding services to the average consumer. This has led to fears that "...one of the failures of the financial sector restructuring could be its inability to support production that is oriented toward satisfying the basic needs of the majority of the population."¹⁶

► *Investment.* The government has sought to attract foreign investment to make up for a low level of domestic savings and investment. Accumulated direct foreign investment increased threefold between 1981 and 1991.¹⁷ However, most capital inflows in recent years have gone to portfolio investments -- buying into existing assets -- rather than to productive activity.

4. Labor Market Reforms

To enact macroeconomic stabilization and structural reforms without drastically increasing unemployment, a decline in real wages is usually made a de facto element of adjustment. In addition, the World Bank recommends the elimination of labor-market institutions and regulations that "restrict the mobility of labor", such as large severance payments and non-wage benefits. Private-sector leaders continue to try to make the labor force even more "flexible" and attractive to foreign investors by pursuing the right to contract at hourly wages and to reduce non-wage benefits yet further.

► *Employment.* Mexico has been cited as a successful example of a country where adjustment has included a real wage reduction in order to prevent massive unemployment.¹⁸ According to the government, unemployment in 1993 was only 2.9 percent. However, in a 1991 study, the Labor Congress (CT) indicated that, out of an economically active population of 34 million, 15 percent were openly unemployed, and over 40 percent -- some 14 million people -- were underemployed.¹⁹ The government only measures urban unemployment, while the problem is thought to be greatest in rural areas. On the other hand, because Mexico lacks an effective social security system, few people can afford to remain unemployed for an extended period of time. Unfortunately, the government does not provide statistics on underemployment.

Jobs are being created in some industries (especially in the maquiladora industry and the service sector), but, overall, massive layoffs and lower growth rates in domestic investment have meant reduced employment opportunities. In 1992, 90 percent of the businesses that make up the Mexican Stock Exchange were laying off workers as a consequence of economic stagnation, low profits, globalization and an inability to compete in the international market.²⁰

C. IMPACT ON THE POOR AND INCOME DISTRIBUTION

1. Poverty

Statistics on poverty in Mexico vary widely, depending on the method of calculation and the definition of poverty being used. It is clear, however, that adjustment has not succeeded in reducing the incidence of poverty and there is evidence that poverty has increased under adjustment. One study that looks at poverty rates during the past decade was commissioned by Pronasol in 1992. According to this study, about one half of all Mexicans lived in poverty in 1990 (42 million) and 18 million lived in conditions of extreme poverty. It goes on to say:

...economic growth is not sufficient to eradicate poverty and extreme poverty...even when it accelerates, it doesn't succeed in absorbing the entire labor force, and sectors of the population remain marginalized from commercial production and, therefore, unable to access the market... If the poverty figures are frightening, their consequences should be even more frightening,...malnutrition has become the normal condition of society...²⁸

Another study commissioned by Pronasol notes that during the 1980s overall population growth was 2.14 percent, while the growth in extreme poverty was 4.4 percent and the increase in general poverty was 5.1 percent.²⁹ A more comprehensive study of changes in poverty levels over the past 15-20 years is still needed. A World Bank study by Santiago Levy gives detailed information on Mexican poverty, but it was written in 1989 with statistics from 1984, so the figures are outdated and do not give us a comparison over time.

► *Pronasol.* The primary government program for relieving poverty is the National Solidarity Program (Pronasol), which was started by President Salinas in December 1988. Pronasol seeks to alleviate extreme poverty while promoting community participation in development. It has been strongly criticized by the political opposition, as well as by many NGOs, as a partisan, corporatist tool of the government, used to win support for itself and for the PRI.

...it builds upon and reinforces some basic flaws in the country's political system. Pronasol is run out of the president's private pocket, its beneficiaries are selected on personalistic and partisan political grounds, and most fundamentally, it is immune from any democratic means of control or accountability. As a result, Pronasol may strengthen institutions and practices -- such as presidentialism and unfair competition among parties -- that constitute the main obstacles to political change in Mexico.³⁰

In general, most complaints about Pronasol are political. The same people that argue against the program because of its political nature also argue that there are far too few resources dedicated to the program if it is really going to achieve a reduction in poverty.

It is beyond the scope of this study to carry out an exhaustive evaluation of the Pronasol program. Aside from the overall problems with the political nature of the program, it is supporting badly needed community development projects. From the grassroots perspective of the people involved in our case studies, there have been both positive and negative experiences with the program's implementation on the ground (see Chihuahua and San Miguel Teotongo studies).

2. Adjustment, Trade and the Environment

NAFTA, say its proponents, will make Mexico a richer country, which in turn will create the financial resources to clean up the environment and prevent further degradation of the natural-resource base. An increased budget will mean better oversight and enforcement, because more personnel can be trained and hired to ensure that the law is observed. However, the maquiladora workers who have to drink water from polluted sources, the Tarahumara Indians who can no longer benefit from their forests because of massive deforestation by lumber companies, the coastal fishers who have been hurt by Pemex's oil drilling, and the millions of Mexico City residents whose health-care costs have risen dramatically due to air pollution know otherwise.

3. Alternatives

What can be done to address these problems? Below are a few preliminary suggestions.

- Promote the "Right to Know". Environmental assessments of new investments, when they are in fact undertaken, are not made public. Environmental groups widely believe that, until there is some sort of independent oversight (by NGOs, citizens' movements, local populations, etc.) of the enforcement of environmental laws, there will be no major improvement in this area.
- The principle that "the polluter pays and restores environmental damage" should be enforced on companies, domestic and foreign, investing in Mexico.
- Link environmental policy with appropriate technology so as to minimize the impact of industrial, agricultural and fishing systems.
- Let citizen groups and grassroots organizations at the local level play a more active role generally in the area of environmental policy and programs.

2. Chihuahuan Agriculture

Bordering on the United States, Chihuahua is one of Mexico's largest states with a population estimated in 1990 to be 2,441,873. Its rain-fed agriculture is dedicated primarily to the cultivation of corn and beans, two staples of the Mexican diet. Peasants generally grow these crops for their own consumption and to supply the urban population in the city of Chihuahua.

Rain-fed agriculture accounts for three-quarters of the agricultural land of the state, 20 percent of total agricultural production and 12 percent of total agricultural value. It employs approximately 17 percent of the state's economically active population, or some 137,236 people. Of these, 103,162 are ejido producers and the rest are small landowners.

The Frente Democrático Campesino de Chihuahua (Democratic Peasant Front, a federation of about 3,000 corn and bean producers) is one of the most important independent organizations in northern Mexico. It developed out of the strong social movements demanding increases in the guaranteed prices of corn and beans in the mid-eighties. The FDC has organized at the grassroots level in an effort to counteract adjustment policies that have negatively affected its members.

B. STRUCTURAL ADJUSTMENT POLICIES IN CHIHUAHUA

Although adjustment has proceeded more slowly in the agricultural sector than in other areas, by 1992 the Salinas administration had utilized a variety of adjustment policies to transform the agricultural sector into a more efficient producer for the international economy. Mexico received an Agricultural Sector Loan (ME-2918) from the World Bank in 1988 that guided agricultural reforms for two and a half years. The overall objectives of the program were to:

1. remove global food subsidies and target remaining food subsidies to the poor;
2. reduce government intervention in agricultural markets, in part by moving from guaranteed prices for grains (corn and beans excluded) toward market-determined pricing;
3. abolish export controls and quantitative restrictions on key products;
4. reduce the role of agricultural parastatals;
5. liberalize agricultural trade;
6. cut the subsidization of inputs;
7. increase the efficiency of public investment in agriculture in real terms; and
8. decentralize and cut staff of the agriculture ministry.³⁹

In addition, other sectoral loans making up part of the adjustment "package" directly affected Chihuahuan corn and bean producers. For example, the Bank, through a financial sector loan, sought to reduce subsidized credit from development banks; a trade liberalization loan was linked to a reduction in tariffs on agricultural imports; and a fertilizer sector loan required the internationalization of fertilizer prices.⁴⁰ Together, these loans have led to a comprehensive restructuring of the agricultural sector.

Faced with such drastic cuts in credit, the peasants of Chihuahua have been forced to seek various forms of supplemental financing. Each family has its own strategy. The family of Rosa Valverde has taken a common approach:

Between my husband and the children, we have 38 hectares and we rent 15. The only credits we have we get from Pronasol, thanks to Frente Democrático Campesino, but it only covers 10 hectares. The rest we have to finance selling cows or with the money that one of my children who recently went to the United States sends us.⁴⁶

Pronasol financing, while clearly more popular than Banrural's, is far from a solution to the peasants' financial problems. The credit is enough to keep the peasants on the margin of subsistence and does little to maximize the potential of traditional agriculture. "If Pronasol stops giving us credit," says Silvestre Vázquez, "we will have to grow only for our own consumption. We can clothe ourselves, but only because our relatives that live in the United States give us used clothing..."⁴⁷

The new credit policy has divided producers into two groups: those who have potential to compete internationally and those who do not. Those with potential receive Banrural or commercial credits. The rest (which include the corn and bean farmers of the FDC) receive Pronasol credits free of interest but at levels insufficient to provide them with a means to enter into the group of "efficient" producers. Of course, credit alone will not help an inefficient producer become efficient. But, without credit, these farmers have no chance of competing under the new system.

2. Elimination of Subsidies on Inputs

In addition to the sizable reduction of credit, subsidies on fertilizers, seeds, fuel and other inputs have been reduced or eliminated. Many peasants can thus no longer afford the inputs they need-- 440 of the 912 ejidos included in this study do not use herbicides or insecticides because of their cost⁴⁸ -- and this has led to reduced yields.

Until recently the government was the main provider of fertilizers and improved seeds, through the state businesses of Fertimex and Pronase. It has been obligated by the World Bank, however, to eliminate or reduce subsidies, resulting in higher prices. The new pricing system introduced in October 1991 set all Fertimex prices at international levels.⁴⁹

Sales of improved seeds have fallen as their prices have risen. The price of certified seeds actually declined in real terms until 1986-87, but has rapidly increased since then. In the case of the 912 ejidos, only 310 use improved seeds.

The price of fuel has also skyrocketed. Between 1978 and 1988, the price of diesel rose 68,461 percent, that of gasoline 17,607 percent and that of agricultural tractors 13,163 percent. Meanwhile the guaranteed price of corn rose only 8,448 percent.⁵⁰

3. Reduction of Guaranteed Prices

To protect small producers from major fluctuations in the prices of their products, the federal government set "guaranteed prices" that it would pay producers for most staples. Since 1981, guaranteed prices have been eliminated on all products except corn and beans, the prices of which have been reduced. The real guaranteed price of corn fell 39 percent and that of beans 27 percent between 1981 and 1990.⁵¹ Although the World Bank sought to include corn and

The NAFTA negotiators agreed to continue protection for corn and bean imports for a period of 15 years because of the extreme damage that would be done to producers if tariffs were eliminated immediately. However, without a strategy for either increasing the productivity of those producers or for changing crops, the new tariff policy will have the same effect over time.

During the NAFTA negotiations, Silvestre Vázquez worried about this impact:

If corn and beans are included in the North American Free Trade Agreement, we won't be able to compete. A lot of people will have to go to the city and only a few will stay in the countryside to care for the old folks. A lot of land will be sold because it won't be profitable to grow our crops. But that isn't going to help, because then the capitalists will arrive and buy the lands and, since they'll be the only ones who produce, the prices will go up again.⁵⁸

C. THE GENERAL IMPACT OF ADJUSTMENT ON CHIHUAHUAN SOCIETY

The policies affecting peasant farmers in Chihuahua taken together, have resulted in decreased production and productivity, significant demographic changes, a further concentration of land, and a general deterioration in the quality of life in the state. A vicious cycle of decapitalization, low productivity, decline in incomes, deterioration of living standards, and migration is repeating itself.

1. Changing Demographic Profile

The effects of adjustment can be seen in the changing profile of the population of Chihuahua, primarily in the state's urbanization. There are 22 municipal centers of rain-fed agriculture in the state. In 1980, they accounted for 15.8 percent of the total population of the 67 Chihuahuan municipalities. By 1990, their population had declined to 13.8 percent. In this decade, 16 of these 22 municipalities had negative growth rates and only two grew by more than one percent. On the other hand, the municipalities of Juárez and Chihuahua, where the maquiladora industry is concentrated, had population growth rates of 3.6% and 2.8 percent respectively during this period. The size of these two municipalities grew from 48.3 percent of the state's population in 1980 to 54.4 percent in 1990.⁵⁹

The primary sector (agriculture, livestock, fishing) absorbed 24.72 percent of the total economically active population of the state in 1980, but by 1990 this figure had dropped to 17 percent. During this same period, the number of landowners in the primary sector fell more than 50 percent from 6,699 to 3,188.⁶⁰

Currently the primary sector employs 131,610 people. This represents practically the same number of jobs that the maquiladora industry created in Chihuahua between 1981 and 1990, as employment in that sector grew from 47,187 to a little more than 170,000.⁶¹ As Gabino Ortega explains, family members are forced to go to the city to look for work, creating more financial problems on the farm because of the loss of free family labor:

While the World Bank acknowledges that there have been "dramatic reforms" in agriculture since 1987, it insists that more needs to be done.⁶⁴ One of the areas it cites in this regard is the liberalization of corn and bean prices. With more pressure thus anticipated on the government to eliminate guaranteed prices altogether, the situation of the FDC producers should deteriorate further in the coming years.

D. POLICY OPTIONS

The overall difficulty for the FDC producers is that their products are not internationally competitive. However, due to the nature of the land and the lack of rains, there are few crop alternatives. Officials at the World Bank recommend that these producers move on to more productive activities or to crops "like strawberries".⁶⁵ Aside from the fact that strawberries cannot be competitively produced on these lands, such a transition would require financing, training, and technical and marketing assistance, and very little government support is available in any of these areas.

Without comprehensive programs to assist in the restructuring of economic activity, current economic policy will only lead to increased poverty and migration to the cities. According to Alejandro Vázquez, "We have never received any technical assistance or advice from anyone. We only want to find the way to improve our crops."⁶⁶

Because there are no crop alternatives and because of its belief that the production of basic grains for the nation is a valuable (if not profitable) productive activity, the Frente Democrático Campesino promotes the continuation of corn and bean production in the rain-fed areas of Chihuahua -- but in a different manner. They recommend the following changes in the area of policymaking:

Democratization of Decisionmaking: A substantial reorientation of federal government policies is necessary in order to preserve and enhance development possibilities for peasant producers. Concretely, this means that peasants, whatever their legal status, must participate in and contribute to the formulation of the economic, social and other policies related to their communities. They should be actors in all the decisions that affect them.

Reorientation of Government Investment: There must be significant government investment in rural infrastructure, above all in small-scale irrigation projects and other means of capturing and retaining water. These small-scale projects create back-up systems that are used in the event that the rains arrive late or not at all. They can significantly reduce the negative impact of bad seasons or late rains on production.

New Financing Mechanisms: New forms of financing should be developed that poor peasants can utilize without paying the high costs of financial intermediation. The most efficient way of achieving this, the FDC suggests, would be the formation of savings accounts, organized and administered by the peasants themselves, with funds supplied by the government, non-governmental institutions and the producers. In fact, the government appears to have decided to try this method of financing, beginning at the end of 1993. Direct cash transfers to bank accounts carries some risks as well, but the FDC has started the implementation of this plan.

IV. THE IMPACT OF ADJUSTMENT ON THE URBAN POOR: WOMEN AND CONSUMPTION IN SAN MIGUEL TEOTONGO

A. BACKGROUND

As opportunities have diminished in the countryside, Mexicans have increasingly moved to the cities in search of a better life. Although poverty is most severe in rural areas of Mexico (due largely to decades of an urban bias in public policy), it is broadly believed that the urban poor have been hit hardest by the adjustment process. They constitute the group that relies most heavily on wage employment, consumer subsidies and public services -- all of which have declined under adjustment.

The community of San Miguel Teotongo is located in the Iztapalapa district on the eastern outskirts of Mexico City. Iztapalapa is the largest and one of the poorest districts of metropolitan area. San Miguel was settled in 1972 by poor families that left the center of the city because of high rents and overcrowding. Since then, San Miguel has grown rapidly to a population of close to 80,000 today.

B. STRUCTURAL ADJUSTMENT IN SAN MIGUEL TEOTONGO

This study assesses the impact of adjustment on poor urban families in San Miguel, primarily through the testimonies of women. Women are the population group most affected by the burden of adjustment, as well as those most active in building alternatives.

Given the traditional division of labor in Mexico, most women work at home, coping with the lack of water, electricity, adequate sewage and other public utilities, as well as inadequate and costly educational and health facilities. As a result of the economic crisis, more and more poor women have been forced to supplement the family income through the informal economy - working at home as seamstresses, in the street as vendors, or washing and ironing other people's laundry. In addition, women are usually those most active in organizing and participating in the affairs of the community.

We assess the impact of three sets of adjustment policies on the residents of San Miguel Teotongo:

- the reduction of real wages and reduced public investment;
- cuts in subsidies and the liberalization of prices; and
- cuts in public services.

The effects of these policies include: a reduction in real income and purchasing power; an increase in the importance of the informal economy and family labor; an increase in the relative price of many basic goods and services; and a reduction in the quality of public services while their costs increase. Taken together, the principal effect of adjustment on the residents of San Miguel has been a reduction in the consumption of basic goods and services.

In San Miguel, according to our 1993 survey, the most common occupation is that of factory worker (30 percent of the employed population), most of whom have seen their real wages decline during the course of the decade. The second most common job is that of "vendedor". Of these, most are street vendors, but some work in fixed establishments, including their homes. The category of vendor in San Miguel has more than doubled since 1981 (from 6.6 percent to 15 percent). This is representative of the growth of the informal economy.

The informal economy in Mexico is largely made up of street vendors, small businesses operated out of the home, and "piece rate" workers (those contracted by large industries to spread risk and lower overhead and labor costs). As the minimum wage is so low, many people prefer to work in the informal economy where they can often earn more. On the other hand, informal-sector workers do not receive benefits that come with formal-sector jobs, they never have vacations, and their incomes are very vulnerable to market uncertainties.

Maribel Gutierrez Hernán from San Miguel explains some of these difficulties:

I am married and I have two children: five and two ... I work with my husband as a street vendor. We sell clothes. We leave the house at 5:00[am] and work until 6:00[pm] Because the economy is so bad, we don't sell much. In a very good day we make 100,000 pesos (\$33.33)[gross], but usually it's about 20,000 (\$6.66)... Our rent just went up from 150,000 (\$50) a month to 200,000 (\$67) a month. Two years ago I only paid 50,000 (\$16.66) a month. But our income isn't going up to pay for this...⁷⁰

The continued decline in real wages has forced more members of the family to work in order to survive. In 1981, there were an average of 1.17 workers per family surveyed in San Miguel, while, according to the 1993 survey, the average was 1.7 workers per family. However, even with 1.7 workers per family, the family wage rarely covers basic needs. Often the whole family gets involved in bringing income into the home, in whatever way they can. Children sell gum, candy and newspapers, or clean car windshields to make a little extra money. "I have a son who is ten," says Gloria Bautista. "He goes out to collect trash for money. He may only bring home 5,000-7,000 pesos (\$1.66 to \$2.33), but we use that to buy his things for school."⁷¹

2. Cuts in Subsidies and Liberalization of Basic Food Prices

The decline in real wages has been accompanied by an increase in prices. Studies show that the price of basic foods has risen even faster than that of many other consumer goods. Since food is the primary expense of poor households in San Miguel, the latter are severely affected by such price increases. Increases in food prices are the result of the reduction or removal of subsidies and the liberalization of the basic-foods market. Both of these policies were mandated under adjustment.

The canasta básica (the basket of basic goods deemed necessary for a family of five) cost 46 percent of the minimum wage in 1983, 81 percent of the minimum wage in 1988, and 61 percent *more* than the minimum wage in 1992.⁷²

Currently, subsidized milk sells for 2,400 pesos for four liters, or 600 pesos per liter. In private stores in San Miguel, milk costs 2,000 pesos per liter. Thus, for a family of five consuming eight liters of milk per week, the subsidy provides a savings of 11,200 pesos per week, close to the daily minimum wage. This is an extremely important subsidy program. Not only does it provide savings to families, it increases the likelihood of milk consumption, which is an important source of calcium and iron.

According to our surveys, 44 percent of the families have access to the milk subsidy. While this is a substantial improvement over the coverage of the tortilla subsidy, it still falls short of covering the eligible population. As with the tortilla program, many of the women who receive the milk subsidy complain about the administration of the program.

Leticia González explains her problems with the program:

You have to go between 5:30 and 8:00 in the morning, or else you won't get milk. It's very dangerous to leave the house alone at 5:30 and later we are busy with the children... Although the milk only costs 2,400, we [the community] also have to pay the rent for the building and we have to pay for a security guard. LINCONSA [the subsidized milk program] only pays for the milk...⁷⁷

The tortilla and milk subsidies in San Miguel illustrate the difficulties of administering targeted subsidy programs. In theory, targeted subsidies make a great deal of sense. However, in practice they leave out millions of people in need.

Subsidized school breakfasts (for children under 12). The federal program, Desarrollo Integral de la Familia (Integral Family Development - DIF), provides pre-packaged school breakfasts to poor children. These breakfasts are distributed through schools or through mothers' committees in the community. Over the past three years, the content of the breakfast has been reduced (replacing an egg, bread and a banana with a biscuit) and its cost has increased. Forty-four percent of the families interviewed in 1993 buy subsidized school breakfasts, which is the same percentage that receive subsidized milk. In addition to reducing the content of the breakfasts and increasing the price, the government has also attempted to eliminate distribution in San Miguel and replace it with the popular kitchens, which are operated by the women in the community. The popular kitchens serve hot breakfasts to the children, but they cost more and they also rely on the women's free labor. This is one of many examples of attempts under structural adjustment to shift the burden of subsidies from the government to the backs of poor women.

Conclusions regarding subsidies. According to the World Bank, the government acquired substantial fiscal savings from reduced subsidies, leading to more efficient public investment and less costly parastatals. "[T]hough consumers bore most of the cost of reforms," it reported, "an expansion of targeted food subsidies softened the impact on the poorest."⁷⁸

However, in San Miguel the targeted subsidies cover neither the necessary range of foods consumed by the poor nor the number of poor people who need them. If they did, they would be an improvement over global subsidies in terms of contributing to a more equal distribution of wealth. Targeting has cut many poor families in San Miguel Teotongo out of the subsidy program, reduced the number of basic foods that were subsidized there, and reduced the level of the subsidies that remain.

According to Clara Brugada, because of the struggles to build schools in the neighborhood during the eighties, San Miguel has more schools per student than the surrounding areas. The issue is no longer access to a primary or secondary school, but the costs involved (both the costs of sending them and the opportunity cost). "In 1982 I had four children in secondary," explains Carlos García Cruz. "It was hard, but we got by. Now I only have one child in secondary and it seems even harder. They ask you to buy very expensive things; for example, I had to buy him a book for 30,000 pesos (\$10)."⁸⁴

Reina Herrera is a street vendor, earning very little. However, she has so far been able to keep all of her children in school despite the high costs:

Most of the money we make goes toward school... [m]y oldest son's tuition was 150,000 (\$50) a semester... the secondary school [public] asks for a 'voluntary' fee of 50,000, but it's really not voluntary. In addition we have to buy all their books, which are much more expensive now. Only last year the books cost between 10,000 and 15,000, but now they cost between 20,000 and 30,000 each book...⁸⁵

► *Health Care Coverage.* In 1970 the Mexican government adopted the goal of providing health care to the country's entire population by the year 2000. Adjustment, however, caused sharp reductions in overall health-care spending during the eighties. Subsequent spending increases have been significant, but they still have not compensated for the earlier cuts. In contrast to educational infrastructure, San Miguel suffers from a lack of health centers. Health-care coverage is provided through several state institutions. Private-sector employees are covered by the Instituto Mexicano del Seguro Social (IMSS), public-sector employees by the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (ISSSTE), and others (including the unemployed and elderly) by the Ministry of Health (SSA). Large state industries, such as Petróleos Mexicanos (PEMEX), have their own health plans.

Thus, in theory, all Mexicans are covered. In practice, however, very poor or non-existent service, exacerbated by budget cuts in the 1980s, has meant that many Mexicans do not have access to adequate health care through these institutions. They either go to private physicians or they do not go at all.

According to our surveys, 42.8 percent of the families in San Miguel are covered by Salubridad (SSA), the institution that covers families without formal-sector employment. This service is notoriously poor, causing many families to seek additional private or community services. IMSS or ISSSTE cover 26.8 percent of the families. Another 17 percent use private medical services, which are relatively expensive but also the most accessible in San Miguel.

In San Miguel there is only one government health clinic (which has been there for over ten years), two popular health clinics run by the community, and three religious health posts (only open from time to time). There are 30 private practices. A consultation at the government or community clinic costs 5,000 pesos (\$1.87), while a consultation at a private practice costs 25,000 pesos (\$8.33).

C. LOCAL DEVELOPMENT PROJECTS AND ALTERNATIVE PROPOSALS

The residents of San Miguel have responded to the economic crisis and adjustment measures by formulating a broad local development initiative. The Regional de Mujeres has launched an alternative development project encompassing food distribution, health care, defense of the environment, and housing in San Miguel. These alternatives were defined by residents in response to the needs of the community. This is a critical factor contributing to their success.

Much of the development of the project components has been undertaken by the community, with no help from the government. The residents have, however, formulated concrete proposals for government assistance in each area. The challenge is to combine community-based alternatives with public technological, training and financial assistance to make these alternatives viable and sustainable in the future. Below we mention a few of the alternative programs set up in San Miguel.

With job creation and increased incomes so important in San Miguel, residents have formed cooperatives to produce goods for sale in the community and to create jobs for young people. Until there is a comprehensive income-generating strategy in Mexico for the poor, however, subsidies will remain vital to their well-being and to their purchasing power. So, the residents of San Miguel have also proposed a targeted subsidy on the "canasta básica" comprising the basic goods consumed by poor families.

According to Clara Brugada, a leader of the Unión de Colonos in San Miguel Teotongo:

We agree the subsidy should be targeted to poor people, but the tortilla and milk subsidies are not enough. People need their basic nutritional needs met, and the poor cannot meet these needs with their low wages. Therefore, a subsidy is needed as an indirect form of increasing wages.⁸⁹

The San Miguel community is also involved in food distribution, primarily through breakfast centers for children. Here, the children can come each morning for a full, nutritional, hot breakfast for 500 pesos. The government provides the infrastructure for the breakfast centers (furniture, dishes, etc.) and the women of the community provide the rest of the services (purchasing the food, cooking, cleaning, organizing).

In fact, the breakfasts are being subsidized by the women, who must do all of the work involved without pay. The proposal from San Miguel is to have the federal Integral Family Development program (DIF), pay the people in charge of the breakfast centers. The residents also propose that each kitchen be given advice in administration, basic foods through various government institutions, and a revolving fund to pay for food and transportation.

The community created its own health center in 1985. Primarily women and children are served here, for 5,000 pesos a visit. The clinic concentrates on preventative care and uses alternatives to Western medicine. Although only serving a small percentage of the San Miguel, it provides an example of community, low-cost health care that could be built upon in the future. The clinic is involved in organizing workshops on nutrition for the women of San Miguel focusing on the causes and prevention of malnutrition; promotion of soy consumption; and children and malnutrition.

V. CONCLUSIONS

The results of this study lead to the conclusion that adjustment in Mexico has failed to achieve its two principal goals: sustainable economic growth and the long-term alleviation of poverty. The World Bank and the IMF applaud the economic performance of Mexico under adjustment, but, with half the population living in poverty, and an increasing concentration of wealth, the success of the model is clearly in doubt.

The removal of government from most areas of economic planning has left the future development of the country principally in the hands of the market. This generates huge profits for a relative few and helps to restore fiscal balance, but it does not address structural problems blocking long-term participatory and sustainable development in Mexico. The case of Mexico is a clear example that success in the achievement of some macroeconomic indicators does not necessarily translate into the improved social well-being of the population.

Adjustment in Mexico has led to a relative macroeconomic stability (despite the growing problems in the external sector). This could be extremely important in setting the basis for sustainable development, but, in the case of Mexico, such stability has been achieved with very high social costs, which themselves threaten development prospects. The pursuit of economic efficiency and short-term profits has overridden concerns about greater equity, leading to an increased economic polarization of society.

In general terms, structural adjustment in Mexico has led to:

1. insufficient economic growth and a disequilibrium among different sectors of economic activity;
2. a worsening of the already steep concentration of wealth and income;
3. a greater dependence of the economy on external financing;
4. a continued disequilibrium in the trade balance and in the current account of the balance of payments;
5. a deteriorating physical and social infrastructure;
6. high unemployment and underemployment; and
7. the absence of an authentic political consensus around the consolidation of adjustment policies.

Adjustment has significantly transformed the country's productive plant, sharpening the differences between the "modern" sector and the rest of society. On one hand, the basis is set for a modern economy that is fiscally sound and internationally competitive. This profile corresponds to large companies, mainly those in the export sector with access to new technologies and with adequate management systems. The great majority of productive establishments, however, are fighting to survive among innumerable bureaucratic complications, a heavier fiscal burden, very high fixed costs and restricted access to credit. Over the last decade, more than 30 percent of small businesses defaulted on loans.

The adjustment program could have included a plan for targeting key industries with considerable potential (both for exports and for production for the national market) and providing them with protection for a defined period, gradually removing barriers. Industrialized nations have always protected their infant industries, and there seems to be a double standard when it comes to legitimate protection in developing countries.

Nor has the program been modified in response to social, economic and environmental problems that have emerged. The government refuses to alter its course for fear of losing the confidence of major economic actors, both international and Mexican. The primary response to such problems has been to increase the budget of Pronasol.

Pronasol was established at the end of 1988 as a response to very high poverty levels. On the surface, this represented an alteration of the adjustment program, providing a "social" aspect to neoliberalism. While the program has succeeded in fomenting thousands of projects that benefit the poor -- potable water, electricity, roads, etc. -- its political nature has clouded many of these achievements. Furthermore, Mexico's deepening and expanding poverty continues to demonstrate that social spending is no substitute for fundamental changes in economic policy itself.

The money to fund Pronasol originally came from earnings from the privatization process. While the budget continues to grow, it is uncertain whether this level of funding will be maintained. What's more, as long as the program is centralized in the federal government, maintains its own parallel mechanisms outside of the state's budgets and decision-making processes, and builds on Mexico's corporatist traditions, it will be disruptive of the democratic process and unsustainable.

The very concept of adjustment needs to be reworked in order for it to engender sustainable development. A new approach of adjustment would include a recognition of a role for the state in planning and in providing basic services to the population. It must be acknowledged that developing countries face certain structural impediments to development that can only be overcome through regulation and the selective but active participation of the state in the economy. This would include a national plan that targets key industries to be developed with state support. It also includes the provision of low-interest credit to small and medium-scale producers, who are currently incapable of competing with the giant transnationals but who employ the majority of Mexicans.

One of the most basic components missing from adjustment programs is an income-generating policy for the poor. Compensatory programs are crucial to protect vulnerable sectors from the transitions taking place, but they do not offer a solution to the long-term problem of poverty. Mexico is just one of many cases worldwide where adjustment and the free market have not only failed to alleviate poverty -- as their proponents insisted they would -- but have further polarized the country, economically and politically. World Bank and IMF officials continue to say that adjustment's attack on poverty will take time, but, after more than a decade of adjustment in Mexico, there is still no light at the end of the tunnel. There must be a point at which these institutions acknowledge that their strategy needs to be altered.

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