

**THE ROLE OF THE STATE IN ALLEVIATING POVERTY:  
THE MEXICAN CASE AND *OPORTUNIDADES***

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**November 2013**

## Abstract

This thesis explores the role of the Mexican state in alleviating poverty. For more than fifteen uninterrupted years, compensatory conditional cash transfer programmes (CCTs) have been used with the purpose of alleviating poverty in Mexico. The main idea behind these programmes is to provide a minimum income to the poorest so that they invest it in the education and health of their children, who, once educated and healthy, would acquire capabilities that would enable them to keep on obtaining an income in the labour market in the mid and long-term to move out of poverty by their own efforts. During this period, the CCTs have had many positive effects on the well-being of the poor and in particular they have helped to diminish the number of unskilled workers in Mexico. However, there is little evidence that proves that the programme is achieving its main goal. Moreover, poverty has kept growing over the years. In recent decades, it has been demonstrated that within developing countries strong institutionalization of the labour market has not only ameliorated the impacts of the global transformation initiated in the 1970s and 1980s but it has also been more important in alleviating poverty than high educational levels. For instance, in Brazil the positive results of their CCT programme (*Bolsa Familia*) have been in part the result of the strengthening of their institutional capacities, which allowed them to complement the programme effectively with training and labour market policies that enable the ex-recipients to obtain sustained income. Using a mixture of qualitative and quantitative methods, we assessed the extent to which the weakness of the institutional capacities of the Mexican state, among other important factors, has impeded the current Mexican CCT programme known as *Oportunidades* from enabling the ex-recipients to obtain a sustained income in the labour market. Our results show that the weakness of the institutional capacities of the Mexican state makes poverty alleviation much less likely to occur because it impedes the provision of training and labour market policies that complement the programme and enable the poor to obtain a sustained income.

***To my family***

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## Acknowledgements

This thesis is the product of the work of many people, who aided, encouraged and guided me in so many different ways. First and foremost I would like to thank my parents, without whose support, love and encouragement none of this would have been possible. This thesis is especially dedicated to them. I would also like to acknowledge my brother and sister for supporting and encouraging me throughout the entire process. My nephew Emiliano, who, without knowing it, was a great source of energy that helped me to go through this endeavour and my grandparents, uncles, aunts and cousins for always encouraging me.

I would also like to acknowledge the *Consejo Nacional de Ciencia y Tecnología* (CONACyT) for the financial support I received that allowed me to come to England to study for the PhD.

My supervisor Dr Louise Haagh deserves all my gratitude for having shared her expertise with me and provided her advice, support and encouragement through my PhD. I would also like to thank Dr Rob Aitken for sharing with me his knowledge about Mexico, helping me to see my own country from a different angle and my proofreaders, Malcolm Wren and Roger Witts, who have done a great job helping me to present my ideas in a more understandable way.

Last but not least, I would also like to acknowledge the assistance and support from people and colleagues from the Department of Politics and friends in York that I had the opportunity to share some time with, the people from *Oportunidades* for facilitating me to carry out my fieldwork, and to all the people who agreed to be interviewed by me.

## **Author's declaration**

This thesis is original work and none of the material presented here has previously been submitted for a degree in this, or any other, institution.

Christian Iván Becerril Velasco 2013

## INTRODUCTION

### i.1 Problem definition

As far as socio-economic inequality is concerned (income, access to health or education services, land distribution, and so on) Mexico is one of the most unequal countries in the world (Esquivel 2010, 1).<sup>1</sup> As in much of Latin America, the underpinnings of socio-economic inequalities are found in the bipolar distribution of land during the colonial rule in the fifteenth, sixteenth, seventeenth and eighteenth centuries (Klasen & Nowak-Lehmann 2009, 5). The processes of independence from European colonizers and of revolutions in the nineteenth century did not greatly change the inequalities between the different social groups; on the contrary, these processes institutionalized and legalized them. After the birth of the Latin American modern nation-states in the early twentieth century, military dictators took over, manipulating social groups through corporatist and patron-client practices which, even allowing for relatively steady economic growth rates, perpetuated or even increased socio-economic inequality (Teichman 2008, 448).

The structural reforms implemented in the early 1980s worsened those trends even more. From the 1930s to the early 1970s, based on the Import Substitution Industrialization (ISI) system, Mexico's Gross Domestic Product (GDP) grew at a relatively rapid pace (3% per year in per capita terms), as a result of which it was known as the 'Mexican miracle' (Esquivel *op. cit.*, 4-5). The economic development strategy relied basically upon state intervention encouraging the industrialization of the country, mainly of urban areas, and

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<sup>1</sup> According to Scott, the poorest 10% of the population receives around 1.4% of national income while the richest 10% receives around 40% (2010, 1).

protecting domestic manufacturers from international competition by means of ISI programmes. In order to ensure the success of the ISI system, quasi-universal provision of basic services such as education and health as a means of increasing the human capital of the citizenry was provided. At the same time, social protection schemes were directed at groups which played important roles in the ISI system, such as state workers and the formal workers in the private sector – to keep them under control – excluding workers in the informal sector.

However, not only was the Mexican state unable to develop any productive sector that allowed the country to compete internationally, but it also depended mostly on international loans and the profits from oil to sustain the ISI system (Moreno-Brid *et al.* 2009, 156-158). In this context, the globalization of the economy and the fall of the oil prices during the late 1970s had serious effects on the Mexican economy and in 1982 Mexico suffered a high debt crisis, bringing about large devaluations and high levels of inflation, which triggered a huge increase in the levels of unemployment, income inequality and poverty (understood at that time as nutritional).<sup>2</sup> Consequently, following recommendations from the IMF and later on from the World Bank, like most of the Latin American countries, Mexico started a process of structural adjustment and economic reforms with the intention of achieving macroeconomic stability, increasing employment and reducing income inequality and poverty (Robertson 2007, 1380).

The so-called Washington-Consensus reforms started to be implemented in the early 1980s and basically comprised two main market-oriented strategies,

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<sup>2</sup> This decade was actually called the lost decade by the UN Economic Commission for Latin America and the Caribbean (Otero 2004, 11).

the reduction of the size of the state and the openness of economic sectors, in order to allow the markets to adjust properly – on their own dynamics – to the new conditions and challenges that the new global order presented. Broadly speaking, price controls were lifted, social spending was slashed, state-run companies were privatized, the financial system was deregulated and tariff barriers for domestic markets were reduced. Paradoxically, the socio-economic conditions of the citizens during this period were worsened especially due to the deep cuts in social spending, which meant a regression in the advancement of the social rights that had been attained in the first half of the twentieth century.

As a result, poverty has kept increasing and income inequality and economic growth have been volatile, which has brought about again a strong reliance on natural resources, especially oil (Adair 2006; Millán & Pérez 2008, 18; Moreno-Brid *et al. op. cit.*, 154; Campos 2010, 2; Lusting *et al.* 2010, 11). These adverse effects forced Mexican political leaders to undertake a path towards the equalization of the poor's socio-economic conditions with the implementation of compensatory anti-poverty policies known as Conditional Cash Transfer programmes (CCTs).<sup>3</sup> The main idea behind these programmes is to provide a minimum income to the poorest so that they invest it in the education and health of their children, who, once educated and healthy, would acquire capabilities that would enable them to keep on obtaining an income in the labour market in the mid and long-term to move out of poverty by their own efforts (Levy 1991, 45-51).

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<sup>3</sup> According to Scott, once the Mexican state was born, the history of redistribution can be divided into three principal periods: 1. the agrarian reform process from 1917 to the early 1990s and the provision of extensive support to the agricultural sector since the 1940s; 2. the expansion of the public education, health and social security systems over the second half of the twentieth century, which can be categorized as regressive and it never achieved a universal coverage; and 3. the anti-poverty policies implemented in the last two decades, such as the cash transfer and increasing spending on basic education services and health services for the uninsured (2009, 12).

Evaluations of the Mexican CCTs *Progres-Oportunidades* have been quite encouraging (Mena 2007; Molyneux 2008; Lloyd-Sherlock 2008; Soares *et al.* 2010; González 2012; and others). These evaluations have demonstrated significant impacts on the well-being of the recipients, such as increasing school attendance, improving health outcomes and reducing income inequality while families or recipients belong to the programme, among other short-term effects. However, there is little evidence that shows that the programme's ex-recipients are able to obtain sustained income in the labour market, which might leave them vulnerable to the shocks of the economy and to falling into poverty again.

Moreover, it has been found that although in recent years income inequality has, to some extent, decreased, poverty has continued to grow reaching similar levels to those of 1984 after the structural reforms started (Scott 2010, 1).<sup>4</sup> Furthermore, the decrease in income inequality could be misleading since it was mainly brought about by volatile and/or unsustainable factors such as the increase in the foreign remittances that brought about the openness of the economy or the grants provided by social development programmes such as *Oportunidades* (Moreno-Brid & Ros 2009, 216-217). A relevant question now would then be if the evaluations of *Progres-Oportunidades* have shown positive results in increasing the educational levels of the ex-recipients and there are labour market policies aimed at

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<sup>4</sup> According to Esquivel *et al.*, from 1996 to 2006 Mexico's *per capita* GDP grew at a rate of 4% per year and Mexico's Gini coefficient fell from 0.543 in 1996 to 0.498 in 2006 (2010, 1), which would mean that the people with the lowest wages saw an increase in their overall income between 1996 and 2006. However, according to the poverty lines defined by the Mexican Technical Committee on Poverty Measurement (See Table 4.11), between 2010 and 2012 the number of poor people increased from 59.6 millions in 2010 to 60.6 millions in 2012. Moreover, food poverty, which represents the lowest of the three lines of poverty, went from 22.2 millions in 2010 to 23.5 millions in 2012. Available at: [www.coneval.gob.mx](http://www.coneval.gob.mx). Accessed: May 2013.



complementing the programme, what is impeding the state from alleviating poverty?

In recent decades, there has been a general consensus that within developing and developed countries, strong institutionalization of the labour market has not only ameliorated the impacts of the global transformation initiated in the 1970s and 1980s but has also been more important in alleviating poverty than high educational levels (Stiglitz 2002, 389; Chang 2010, 179). For instance, the strong regulatory-market capacity of the East-Asian states, through a strongly institutionalized bureaucratic apparatus, has allowed them to protect workers' rights while helping the private sector to increase their productivity to foster employment generation. The progressive fiscal capacity of the Scandinavian welfare states, on the other hand, through strongly institutionalized tax collection and social spending systems, has allowed them to spend high levels of GDP on social policy, allowing the society to organize and participate in the decision-making process, thereby justifying greater tax collection.<sup>5</sup>

In Latin America, the Brazilian experience has also shown that the positive results of their CCT programme (*Bolsa Familia*) have been in part the result of the strengthening of their institutional – regulatory-market and fiscal systems – capacities, which allowed them to complement the programme effectively with training and labour market policies (effective law enforcement

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<sup>5</sup> In the simplest terms, in a progressive fiscal system, on the one hand, taxes are paid in proportion to the income earned. The tax as a percentage of income increases as total income increases and considerable redistribution takes place between those with high and those with low incomes (Rothstein 2000, 149). On the other hand, public services and resources are mainly used by those at the bottom of the social structure, which brings about low socio-economic inequalities and justifies greater tax collection.

and access to union representation, access to finance) that enable the ex- recipients to obtain sustained income.<sup>6</sup> In Mexico, on the other hand, since the North American Free Trade Agreement (NAFTA) came into force in 1994, there has been an emphasis on the growth of the manufacturing sector to generate employment, with Mexican workers as the assemblers, whereas the Americans provide technology for the production of manufactured goods, especially in states that are geographically closer to the United States (Borraz & Lopez-Cordova 2007, 3; Popli 2010, 806). However, although some pockets of high productivity have been developed in the textiles, shoes and clothing industries (Bayón 2009, 302), and to some extent in the software and hardware and aerospace industries, these sectors are not intensive in employment and/or do not have many links to the rest of the economy (Blecker 2010, 12). Furthermore, according to Kuznetsov and Dahlman, there are many other potentially accessible markets that have not been taken either by the state or by the private sector due to the lack of investment in research and development (2008, 3).

Most importantly, most of the Mexican micro, small and medium enterprises (MSMEs), which represent around 99% of all Mexican firms, accounting for more than 70% of all employment and generating more than 50% of GDP, take advantage of the gaps of the Mexican labour norms and regulations to avoid paying tax and/or social security contributions, both legally and illegally (Canales & Nanda 2008, 63; Temkin 2009, 50). As a consequence, most of the jobs offered in the small and medium enterprises of the manufacturing sector are not only low-qualified with poor salaries (Borraz &

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<sup>6</sup> See De Andrade *et al.* 2010.

Lopez-Cordova 2007, 3; Popli 2010, 806) but also have high levels of informalization since workers normally do not have access to union representation, stable contracts or training schemes. Moreover, in the goods and service sector, where more than 60% of the whole population works nowadays in enterprises of less than five workers, most of them work in complete informality since most of the micro-enterprises are not even registered with the social security and/or fiscal institutions and in consequence workers do not have access to labour contracts and social security services and are not covered by minimum wage legislation but have to rely on family networks to cover their social protection (Popli *op. cit.*, 803; Chen 2008, 18-22).

In addition, not only have basic services that could have an impact on poverty alleviation such as education remained underfunded, but also they are now unreachably by the poor, especially at the university level, since the private sector has been encouraged to provide the service. Moreover, public spending on labour market policies has been directed towards information for people to find jobs rather than emphasizing training to acquire new skills to join the labour market or formalizing employment (Ruiz 2009, 183).<sup>7</sup> In sum, in recent decades there has been an informalization of labour of different types and to varying degrees since workers do not have access to social security services, stable contracts, union representation, training schemes and so on. All of this impedes the citizenry from obtaining a sustained income in the labour market, especially for those at the bottom of the social structure. So why has

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<sup>7</sup> As a matter of fact, Cárdenas argues that, although social spending has increased “at an annual real rate of 7.0% since 1990, public spending on productive activities, as a percentage of GDP, has actually decreased” (2009, 270).

the intervention in the labour market of the Mexican state not been as effective as in some other developing countries?

## **i.2 Scope of the thesis and central research question**

Poverty emerged strongly as a problem in Mexico in the early 1980s (Rodríguez 2010, 84). The main drivers were the adverse effects brought about by the implementation of the Washington Consensus reforms outlined above (Cárdenas 2009, 274; Rodríguez 2010, 84-85; González 2011, 166-167). In the previous decades, poverty – understood as nutritional – was significantly declining and was presented as a collateral issue of economic underdevelopment (low levels of industrialization) (Cárdenas *op. cit.*, 274-275; González 2011, 166). Accordingly, the poverty reduction approaches developed since the early 1980s have been shaped by the same logic as the Washington Consensus reforms (Cárdenas *op. cit.*, 275; Rodríguez 2010, 85).

So, following international organizations such as the World Bank, the first definitions and measurements of poverty in Mexico were merely comparisons of the levels of income or living standards (consumption) (Coneval 2010, 18). The logic behind these definitions or measurements was that poverty was an absolute concept; a person was poor only when he/she lacked enough money to meet the basic needs to subsist. Accordingly, the first governmental anti-poverty policies such as *PRONASOL* (1988) and *PROCAMPO* (1993) were launched with the intention of alleviating the consequences of the structural reforms by creating social funds as targeted safety-nets for the poorest who did not have income-earning capacities (Székely & Fuentes 2002, 131).

After the increasing levels of poverty brought about by the monetary crisis of 1994-1995, a new wave of anti-poverty policies such as *Progres-a-Oportunidades*, more concerned with the causes than the consequences of poverty, started to be launched in 1997 (Camp 2011, 20). Accordingly, in 2000 the first official definition of poverty in the Mexican state was introduced (Rodríguez 2009, 108). Following Amartya Sen's distinction between absolute and relative poverty (Anand & Sen 1997, 4) and the Human Development Report developed by the UNDP since 1990, it was argued that the former is the deprivation of the basic capabilities for subsistence (nourishment, education and health) and the latter is the lack of adequate means in a specific society to achieve those capabilities (Sedesol 2002, 19). In view of that, the federal government defined the degree of poverty of a person according to three lines of poverty that were established in 2002: nutritional poverty (considered as extreme poverty), poverty of basic capabilities (education and health) and poverty of patrimony or assets.

Since 2004, when the General Law of Social Development (LGDS) was enacted, poverty in Mexico has been understood as a multidimensional phenomenon and persistent in time and across generations.<sup>8</sup> The official definition of poverty considers the living conditions of the population from three aspects: their economic welfare, their social rights and their territorial context (Coneval *op. cit.*, 12). The aspect of economic welfare comprises the needs associated with the goods and services that can be purchased by the population through their income. For that purpose, in late 2010, Coneval defined two lines of poverty to measure the degree of poverty of a person that, in the

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<sup>8</sup> This law also involved the creation of the National Council for the Evaluation of the Social Development Policy (CONEVAL), responsible for applying the criteria for measuring poverty in Mexico.

years to come, are going to replace the three lines of poverty introduced in 2002.<sup>9</sup> First, *the welfare line* which identifies the population that does not have an income high enough to satisfy their basic needs (goods and services), and; second, the *minimum welfare line* which identifies the population that does not have an income high enough to satisfy their nourishment needs (*ibid.*, 13).<sup>10</sup>

The aspect of social rights, on the other hand, comprises the fundamental rights expressed in the Mexican Constitution that every citizen is entitled to and that are duties of the state but which the poor are limited in their ability to exercise. The LGDS established six fundamental rights: access to education (primary and secondary school), access to health services, access to social security (pension), access to food, quality of housing and access to basic services in housing (water, sewerage and electric energy) (*ibid.*, 19).<sup>11</sup> Accordingly, the population in multidimensional poverty is the one whose income is insufficient to purchase the goods and services required to satisfy their basic needs and lack at least one of the six fundamental rights mentioned above (*ibid.*, 20).<sup>12</sup>

Finally, the aspect of the territorial context incorporates features that go beyond the individual capacities of the poor, such as geographic, social and cultural characteristics. The logic behind this aspect is that poverty is suffered at

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<sup>9</sup> According to the website of Coneval, the poverty lines introduced in 2002 are still used since most of the local governments' and civil society organizations' programmes and measurements were initiated taking into account the first poverty lines and a time-lag is needed so that all the governmental programmes are made consistent. See: [www.coneval.gob.mx](http://www.coneval.gob.mx). Accessed: February 2014.

<sup>10</sup> Both lines are updated every month using the national index of general prices produced by INEGI.

<sup>11</sup> Evaluation of these indicators has been carried out every two years since 2008 and utilizes data from the surveys of INEGI.

<sup>12</sup> By 2008, 44.2% of the whole population (47.2 million) lacked access to at least 2.7 of these rights. Out of the total population living in multidimensional poverty (36 million), 11.2 million people (10.5 percent of total population) suffered extreme multidimensional poverty with a limited access to almost four of those rights. People are considered to be in extreme multidimensional poverty when they face three or more social deficiencies each and their full income is insufficient to cover their needs for food, even if it were all used for that purpose (Sedesol 2010, 7-8).

the local level, in a specific context, in a determined place and under determined circumstances (*ibid.*). Accordingly, it measures, on the one hand, the social polarization, social networks or economic inequality, and on the other hand, the access to basic social infrastructure such as the pavements of streets, street lighting and landfills (*ibid.*, 15). However, there are no exact definitions of these concepts since they are practically left open to be defined according to the characteristics of the different communities in Mexico.

In line with the LGSD, the whole anti-poverty strategy consists of more than ten means-tested programmes, *Oportunidades* included, which are intended to tackle the different dimensions of the official definition of poverty.<sup>13</sup> However, this definition has been accused of presenting poverty as an independent phenomenon and disconnected from economic trends (Cárdenas *op. cit.*, 269; Rodríguez 2010, 288). This is because it seems to be assumed that by opening access to services that allow the poor to develop income generating capabilities, the market will eventually create the conditions – employment – which will allow them to obtain an income high enough to satisfy their basic needs in the mid and long run to move out of poverty by their own efforts (Rodríguez 2010, 288-289).

However, there are many factors, such as the institutional framework of the state, economic policies or independent labour market dynamics, which can

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<sup>13</sup> Apart from *Oportunidades* (access to education, health and food), there is *Seguro popular* (access to health), *pensión para adultos mayores* (pension for elderly), *zonas prioritarias* (quality of housing and access to basic services in housing), *seguro de vida para jefas de familia* (life insurance for single mothers), *3x1 para migrantes* (basic infrastructure), *opciones productivas* (access to finance in rural zones), *atención a jornaleros agrícolas* (food, school grants, economic support and quality of living for temporary farmers), *LICONSA* (Milk), *DICONSA* (Food), *INAPAM* (support for handicapped elderly people) and *co-inversión social a cargo de INDESOL* (Social cohesion). In addition, there is a decentralized programme for states and municipalities in Mexico for the construction of a basic infrastructure for urban and rural marginal settlements (item 33). Source: CONEVAL: [www.coneval.gob.mx](http://www.coneval.gob.mx). Accessed: January 2014.

affect the labour market performance and which the Mexican anti-poverty strategy seems to be overlooking. This is especially so because since the onset of globalization the global economy has become more prone to economic crises, involving deep sudden downturns that spread from one country or region of the world to others (Standing 2010, 3). For instance, as argued above, in order to adjust to the global era, the Mexican state replaced the ISI system and embarked on an export-growth strategy. The problem here is that around 80% of Mexican exports go to the United States every year, which leaves Mexico in a very vulnerable position since any significant downturn in the United States economy typically produces adverse effects on Mexico's economy, such as in 2008 when the American economic recession negatively affected the Mexican economy and the levels of food poverty (Cárdenas *op. cit.*, 276; Camp 2011, 21).

It is a similar case with the immigration policies of the United States and Canada since the signing of NAFTA brought about an increase in the number of Mexican undocumented immigrants to these countries looking for better economic opportunities (Moreno-Brid & Ros *op. cit.*, 216-217; Camp 2011, 46; Calderón 2011, 34).<sup>14</sup> However, every time there is a downturn in their economy, the number of Mexican undocumented immigrants also declines since they are perceived as taking away jobs from the local population (Camp 2011, 46-47). The problem is that when migrants go back to Mexico they sometimes face even more problems in finding employment, which leaves them vulnerable to falling into poverty since not only do undocumented migrants normally have low skills levels but also Mexico's economic growth strategy has

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<sup>14</sup> According to Camp, by 2011 the Mexican-born population in the United States totalled nearly 11.5 million (2011, 46).



failed to create the number of jobs required by the labour force (Moreno-Brid *et al. op. cit.*, 155; Calderón *op. cit.*, 34).

Furthermore, the problem is not only economic volatility but also the fact that the opening up of the economy during the 1980s brought about a tacit agreement by which, instead of being taxed, the private sector would lend governments money to finance deficits (Centeno & Cohen 2012, 5). As a consequence, the Mexican state depends increasingly on foreign investment to stimulate economic growth. By way of an example, inward foreign direct investment stocks as a percentage of GDP have increased from 7.8% in 1990 to 15.3% in 2000 and 35.2% in 2010.<sup>15</sup> However, foreign direct investment has been concentrated in a few states, those which are closer to the United States, such as Baja California, Chihuahua and Nuevo León, and those with the highest levels of social spending on education (mainly at the university level), health and public security, such as Mexico City and the State of Mexico, which has brought about a highly unequal income distribution between the Mexican states (Germán-Soto & Ríos 2011, 128).

Moreover, because of their close ties with foreign firms, the exporting firms that normally provide little employment and produce for foreign markets (mainly the United States) are mainly the ones that take advantage of the extensive tax exemptions on imports of machinery, equipment and parts that the Mexican state has granted since the opening up of the economy to attract foreign investment (Alvarez 2007, 6-8; Teichman 2012, 160). In contrast, the medium and small enterprises that produce for the domestic market and that provide most of the employment and could provide those inputs are left out of

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<sup>15</sup> See <http://www.oecd.org/corporate/mne/statistics.htm>. Accessed: January 31 2014.

the supply chain (Teichman 2012, 160-161). As a consequence, in order to survive, medium and small enterprises are forced to lower their production costs to a point where they have to sacrifice the workers' salaries and rights, which contributes significantly to constraining employment growth and poverty alleviation (*ibid.*).

What is more, the causes that could prevent the equal distribution of resources and services that would allow the poor to acquire income-generating capabilities are not taken into account either (Rodríguez 2010, 289). According to Teichman, despite some shift toward social spending to benefit the lower classes in the last few decades, social spending is in general regressive, meaning that it does relatively little to mitigate inequality and poverty (2012, 160-163). Furthermore, in the case of the public education service, which does show some progressivity (in the primary and secondary levels), the service is of low quality, meaning that every time it is more likely that only the lower classes make use of the service whilst the middle and upper-middle classes prefer private education (*ibid.*).

This thesis intends to add an example of the extent to which the institutional weakness of the Mexican state can prevent the *Oportunidades* programme from enabling the poor to obtain sustained income in the labour market that would allow them to move out of poverty. More precisely, we examine the extent to which the weakness of the institutional capacities of the Mexican state – here defined as the regulatory-market and fiscal systems – has impeded the anti-poverty policy of recent times, the *Oportunidades* programme, from enabling the poor to obtain sustained income in the labour market that would allow them to move out of poverty. We do not intend to understand or

explain all the forms of constraint that could impede the *Oportunidades* programme from achieving its main goal nor all the actors involved in alleviating poverty, but rather what the role of the Mexican state in alleviating poverty might be under the logic of the *Oportunidades* programme and the extent to which the weakness of its institutional capacities impedes it from fulfilling it.

The Mexican case is outstandingly interesting because, as argued above, as in much of Latin America the state has been influenced by local and international private sector actors, which brought about the perpetuation of the socio-economic inequalities inherited from the period of Spanish rule. As has already been explained, the structural reforms exacerbated those conditions even more and this was an important cause of the shift in the executive branch after 70 continuous years of rule of the centre-wing political party PRI. Nonetheless, the take-over of the right-wing political party PAN in 2000 not only failed to represent an ideological shift, but also both parties have continued to push pro-market reforms, reducing the scope of intervention of the Mexican state in the economy, claiming that in this way it would be much more efficient. However, we are not interested in the way in which the state has changed in terms of the number of offices or public servants. What we are most interested in is how the state's functioning might be impeding the *Oportunidades* programme from achieving its main goal. The main research question that will guide the discussion and that this research tries to answer is the following:

What is the role of the Mexican state in alleviating poverty and to what extent does the weakness of its institutional capacities impede it from fulfilling it?

### **i.3 Aim and objectives of the research**

The aim of this research is to understand the role of the Mexican state in alleviating poverty and the extent to which the weakness of its institutional capacities impedes it from fulfilling it. Our central argument is that the *Oportunidades* programme has failed to enable the recipients to obtain sustained income in the labour market due to the lack of effective training and labour market policies that complement the programme. The core cause of this is the weakness of the institutional capacities of the Mexican state, which has impeded it from creating the conditions for the poor to obtain sustained income in the labour market that would allow them to escape poverty.

The main objectives that we seek to address in this thesis are five. First, we aim to empirically examine the role of the state in alleviating poverty in Mexico under the logic of the *Oportunidades* programme in urban zones. Second, we aim to advance the discussion about the importance of institutions for the working of human society and the socialization of individuals (North 1981 and 1990). Third, we also aim to show the importance of the institutionalization of the labour market for its proper function (Polanyi 1944; Solow 1990; Hodgson 2004). Fourth, we seek to develop a methodology based on both quantitative and qualitative research methods in order to more accurately assess the role of the state in alleviating poverty in a middle-income country such as Mexico in urban zones. Fifth, in the analysis of the CCTs as the main anti-poverty policy in Mexico, the role of the state has received relatively little attention. We aim to add relevant understanding of the extent to which the weakness of the institutional capacities of the Mexican state has been a key factor that has impeded the *Oportunidades* programme from enabling the ex-recipients to

obtain sustained income in the labour market to move out of poverty in urban zones.

#### **i.4 Research Methodology**

Our methodology was a mixture of quantitative and qualitative methods and can be divided into four main parts. The first part was the *focus group* technique, by which we interviewed one small group of ex-recipients in order to understand their lives and the constraints they face in obtaining sustained income in the labour market in urban zones. The second part was nineteen semi-structured interviews that we undertook with different actors of the social structure involved in our research problem, such as government officials, private sector employers and civil society organizations. The third part was a survey applied to ex-recipients of the *Oportunidades* programme who were economically active. The fourth part was the analysis of several types of official documents related to the institutional capacities of the Mexican state, mainly requested through the websites of IFAI (Federal Institute of Access to Information and data protection, in English) and INFOEM (Institute of transparency, access to public information and protection of personal data of the State of Mexico and Municipalities, in English).

#### **i.5 Contributions to knowledge**

There is already an extensive literature on the evaluation of the CCTs, especially in the cases of Mexico (*Oportunidades*) and of Brazil (*Bolsa Familia*), which have some of the largest numbers of families receiving the cash grants. However, most literature examining the CCTs has mainly focused on how far the programmes' goals have been met, and on the impacts, limitations and

consequences, intended and unintended, of the programmes in different areas of the recipients' well-being. Only a few of them have focused on the institutional weakness of the state as one of the main factors that could impede the programme from achieving its main goals despite the fact that most of them highlight the point that the state has played an important role either in helping or in impeding the achievement of the programme's desired ends.

For Maldonado *et al.*, the *Oportunidades* programme could be seen as a first step by the Mexican state in reconstructing the notion of citizenship in Mexico, since one of the programme's goals is to dignify the rights of children to health and education so that they can have the potential to find their own way out of poverty (2005, 38). Gertler *et al.* showed that the countries that are implementing this kind of programme are not creating welfare states with populations that become dependent on government assistance, as some may presume; on the contrary, they provided evidence to show that conditional transfer programmes do not create disincentives to work, and that some beneficiaries are either re-allocating or increasing the labour supply to take advantage of newly-available economic opportunities (2006, 28).

Mena reported the impact of the *Oportunidades* programme on the economic security of poor families and highlighted, among other things, how this kind of programme could be seen as the first step towards the re-definition of the role of the state as a welfare provider (2007, 202). Molyneux (2008) critiqued the supposed empowerment of mothers receiving benefits from the *Oportunidades* programme and highlighted the way in which the state plays an active role in re-traditionalizing gender roles and identities by creating a dependency on a subsidy which confirms mothering as women's primary social

role. Research has also been undertaken into CCT programmes in other countries, especially *Bolsa Família* in Brazil (Cardoso & Souza 2004; Haagh 2007 and 2011b; Matarazzo 2007; Soares 2012; Baldwin 2013), the first programme of this kind to be introduced in Latin America, and in countries such as Colombia (Attanasio *et al.* 2010) and El Salvador and Paraguay (Soares and Britto 2007).

Some others have examined the outcomes of the CCTs in comparative perspective. For instance, Soares *et al.* 2010 compared the impact of *Bolsa Família* in Brazil to that of other CCTs in Latin America, such as in Mexico, Colombia, Ecuador and Chile, and showed that all the programmes have helped to reduce nutritional poverty and have improved the educational levels of the recipients. Alzúa *et al.* (2010) examined the effects of the CCTs on work incentives and the adult labour supply in rural areas of Mexico, Nicaragua and Honduras. Sugiyama (2011) contrasted domestic preconditions (such as political ideology, state capacity and human development levels) with international pressure (neighbourhood effects, professional norm-creation and financial inducements by international financial institutions) to explain the diffusion of CCTs in Latin America.

At the time of the writing of this thesis (2010 - 2013), I have found only three research studies on the *Oportunidades* programme which have considered some of the constraints or impacts of the *Oportunidades* programme in enabling the ex-recipients to obtain sustained income in the labour market. Santiago Levy argued that poverty will not be alleviated because the regressive Mexican taxation system forces the recipients to work in the informal sector of the economy, which leaves them vulnerable to falling into poverty again since

they do not have access to social security services (2007, 49-50). González (2012) discussed the positive impact that the *Oportunidades* programme has had on the educational level of the recipients and how these positive outcomes have helped the recipients to obtain better jobs in rural zones. Sánchez and Jiménez (2012) analysed the options of the ex-recipients of the *Oportunidades* programme once they graduate from the programme in rural zones and argued that it is necessary that the Mexican state complement the programme with mechanisms that allow the poor either to keep studying to BA level or to obtain sustained employment so that they are not vulnerable to falling into poverty again.

We aim to add relevant understanding by researching the extent to which the weakness of the institutional capacities of the state has impeded the *Oportunidades* programme from enabling the ex-recipients to obtain sustained income in the labour market that would allow them to move out of poverty in urban zones. We have chosen urban poverty for three main reasons: First, in Latin American countries in absolute terms there are more poor people in the urban zones than in rural areas, since the majority of the population now lives in cities (World Bank 2006, 149). Second, people in towns cannot depend on self-produced consumption in the way that their rural counterparts can, and this is the reason why they become more dependant on the state provision of resources and services to increase their capabilities to obtain sustained income in the labour market. Third, due to the high levels of labour informality that exist in Latin America, the main concern of state policy regarding employment is that poor people have sustained income generation, which is the reason why the



relationship with the institutional capacities of the state regarding their opportunities in the labour market is more direct in urban zones.

## **i.6 Outline of the thesis**

The structure of this thesis is as follows. Chapter 1 introduces the theoretical framework that will guide the analysis to enable an understanding of the interconnections between the state's institutions and organizations, the labour market and poverty. We draw on an *institutional political economy analysis* to explore the contributory role that the state plays in alleviating poverty and the extent to which the weakness of its institutional capacities impedes the *Oportunidades* programme from achieving its main goal. We argue that an institutional political economy analysis is the appropriate approach because it provides a framework which helps us to understand the extent to which the institutional weakness of the Mexican state, among other important factors such as economic policies or independent labour market dynamics, can impede the ex-recipients of the *Oportunidades* programme from obtaining sustained income in the labour market.

In Chapter 2, we review the environment that paved the way for the structural adjustment reforms that were implemented in the 1980s and its effects on the institutional capacities of the state which have influenced the residual social welfare model implemented since the 1980s. In addition, we explain in depth the way in which the *Oportunidades* programme works and review the outcomes of the programme on the education of the recipients. Finally, we examine the Mexican labour market and argue that the weakness of the institutional capacities of the state has influenced informal changes in its

characteristics that have brought about high levels of labour informalization and economic insecurity as the main issues that have to be tackled so that poverty can be alleviated.

The third chapter presents the research methods applied to carry out the analysis. We designed a methodology that combined quantitative and qualitative methods, which allowed us to examine the linkages between the capabilities of the ex-recipients of the *Oportunidades* programme, the institutional capacities of the state and the labour market. We also discuss how we selected the State of Mexico and Toluca as sites to carry out our fieldwork and how we used a random sampling technique to select the poor for interviews.

The fourth chapter presents an analysis of the extent to which the institutional weakness of the regulatory-market capacity of the state impedes the ex-recipients of the *Oportunidades* programme from obtaining sustained income in the labour market. We argue that the weakness of the regulatory-market capacity of the Mexican state in the world of labour, brought about, on the one hand, by its weakly institutionalized bureaucratic apparatus in charge of applying the law in the world of labour and, on the other hand, the limited access to workers' organizations that provide third-party enforcement, contributes significantly to hampering the alleviation of poverty because it prevents the state from protecting workers' rights while helping the private sector to maintain or increase its productivity.

The fifth chapter presents an analysis of the extent to which the institutional weakness of the fiscal capacity of the state impedes the ex-

recipients of the *Oportunidades* programme from obtaining sustained income in the labour market. We argue that the federal level has tried to maintain its power over access to basic resources, which has impeded the lower levels of government from improving their institutional capacities and this has made it difficult to use expenditure as a tool for alleviating poverty and in this way to justify greater tax collection.

The sixth chapter presents an analysis of the extent to which the neo-liberal ideology of the Washington Consensus reforms introduced in Mexico in the early 1980s has shaped the behaviour of the ex-recipients in the occupational realm. We argue that, contrary to the neo-liberal ideology of the Washington Consensus reforms, which assumes that state intervention to help the poor through cash transfers and social provision creates perverse incentives for them not to move out of poverty by their own efforts, it is the weakness of the institutional capacities of the Mexican state which has impeded the *Oportunidades* programme from enabling the poor to obtaining sustained income in the labour market to move out of poverty by their own efforts. In this way, we were able to complement the findings reported in the previous chapters to understand in a better way the extent to which the weakness of the institutional capacities of the state impedes the *Oportunidades* programme from achieving its main goal. The seventh chapter presents the main conclusions of the thesis.

## CHAPTER 1

### THE ROLE OF THE STATE IN ALLEVIATING POVERTY

#### Introduction

In this chapter, we shall present the theoretical framework that will help us to understand the role of the state in alleviating poverty in a middle-income country with high socio-economic inequalities such as Mexico. More precisely, the conceptual issues that we shall present here will allow us to analyse the extent to which the weakness of the institutional capacities of the Mexican state could prevent the anti-poverty strategy of recent times, *Oportunidades*, from achieving its main goal. We argue that an *institutional political economy analysis* is the appropriate research approach because it provides a framework that will help us to understand the role of the state, among other important factors such as economic policies or independent labour market dynamics, in alleviating poverty. The chapter is divided into seven sections. In the first three sections, we shall introduce the origins, logic and key concepts of the institutional political economy approach. In the fourth section, we shall consider the importance of state intervention to alleviate poverty in the light of the institutional political economy approach. In the fifth section, we shall explore the role of the state under the logic of the current main paradigm in poverty alleviation. In the sixth section, we shall discuss the relationship between the institutional capacities of the state and poverty. The final section will conclude the chapter.

## 1.1 Institutional Political Economy analysis

Institutional political economy analysis is an approach to explaining how and why the political and hierarchical structure and the beliefs of a society determine its performance characteristics, such as its internal order, socio-economic inequality, economic growth and so on. The central idea is that the way in which a society is organized is determined by institutions which give authorities control over resources, which allows them to shape economic outcomes and the behaviour of the citizens. In this sense, it implies a broader vision of how societies operate and sustain themselves since it pays attention to the way in which axiological, political and economic institutions influence and reinforce each other, rather than the typical views that focus only on political, economic or cultural variables without considering each other, and consequently fail to provide appropriate conclusions.<sup>16</sup>

It is mainly based on the work of Max Weber (1964 and 1978), Joseph Schumpeter (1991), Adam Smith (1976), Karl Polanyi (1944) and T.H. Marshall (1950), among others, who argued that socio-economic inequalities are institutionally determined and that the intervention of the state is necessary to equalize the opportunities of people to avoid perverse consequences. It was brought back during the early 1980s (Evans *et al.* 1985) as part of the new institutionalism movement, in reaction to the economic and society-centred rational choice and behavioural approaches, which saw the state as less

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<sup>16</sup> Economic, political and behavioural analysis that focuses only on one discipline normally tends to conceptualize the state as an actor in order to uncover the aims behind the objectives of the political, economic and social policies, to understand how the state interacts with the different actors of the social structure. However, as argued by North *et al.*, the difficulty with the single actor approach to the state is that it overlooks how the internal structure of the state affects how the state achieves its goals or objectives (2009, 17). See Marsh and Stoker (2010) part 1 for an account of the economic, political and behavioural perspectives that conceptualize the state as an actor.

important as a coordinator of the economy. It has been greatly advanced by institutional theorists such as Evans (1989 and 1995), Chang (2007 and 2010), Esping-Andersen (1990), Schneider (2009) and Haagh (2011b), although it was North *et al.* (2009) who produced the most far-reaching conceptual framework.

## **1.2 The Logic of Institutional Political Economy analysis**

North *et al.* explained that the logic of institutional political economy analysis is, in the broadest terms, that in pre-modern states dominated by traditional or charismatic leaders, the latter agree to respect and defend the prerogatives of the political and economic elites which belong to that particular society, including property rights and access to and control over valuable resources such as land, labour and capital, or valuable activities such as trade and education. In this way, elites not only avoid fighting with each other but also form a coalition to manipulate the political system to increase their rents while keeping social order and, at the same time, securing their continuation in power. Accordingly, the military, fiscal and judicial systems are subject to the control of the political system, which limits access to those valuable resources or activities by any other non-elite group, using force, if necessary (*op. cit.*, 13-29).

However, in order to define their privileges with respect to each other, elites have to create public legal institutions that are enforced impartially and impersonally but only in relation to their coalition's members, which allows them to organize to pursue their economic, political and social goals, also providing third-party enforcement on the activities of the state. Once this limited but impersonal institutional framework exists, it might be possible to extend it to the rest of the society as well if the elites perceive that their prerogatives will be

more secure from intra-elite competition when those privileges are shared as rights. This, as a result, prevents the political system from manipulating economic interests since it produces a constantly shifting distribution of economic and political interests, making it difficult for elites to consolidate their advantage through rent-creation since every party finds strong incentives to monitor the others and to publicize attempts to subvert the legal-institutional framework (*ibid.*).

This brings about the formation of a rational-legal or modern state, whose capacity to control violence to achieve social order stems from the way in which its institutional framework supports complex and specialized organizations through which the different groups in society are treated equally as citizens, having open access to organize to pursue their own economic, political and social goals. However, when elites perceive that their prerogatives are not in danger from intra-elite competition, because each member of the coalition understands that the other elites find similar incentives to keep manipulating the economic system and secure political order, they then do not extend the impartial and impersonal enforcement of the public legal institutions to the rest of the society. In this way, they can limit access to and control over valuable resources and/or activities by any other non-elite group using force, if necessary, to control violence and achieve social order while keeping and consolidating their prerogatives over time (*ibid.*).

## 1.3 Key concepts of Institutional Political Economy analysis

### 1.3.1 Institutions

The institutional political economy approach distinguishes between *institutions* and *organisations*. Institutions are the 'rules of the game' that shape the motivations behind the economic, political and social interactions in human exchange (North 1990, 3). They shape human interaction because they reduce insecurity by creating stable expectations of the behaviour of others. In this sense, they are constraints that "include both what individuals are prohibited from doing and under what conditions some individuals are permitted to undertake certain activities" (*ibid.*). In this sense, institutions constrain in order to enable us to do many more activities, defining the set of choices of individuals. Tendler (2002) has shown, for example, how the formalization of small firms through taxation is a constraint that could enable the improvement of their productive opportunities, since it gives them access to credit and links them to organizations that could represent their interests, thus increasing their sustainability.

Institutions, however, are also influenced by the cultural environment, which is the reason why they can not only be seen as constraints and enabling devices of policies and goals, but also as constitutive ones because they are constructed according to the values, interests, beliefs, world-views and ideas of the different actors involved in institution-building (Leftwich 2007, 10). Citizens internalize the values, interests, world-views, beliefs and ideas that derive from the structure of organizations and institutions such as their personal or impersonal identity, and act accordingly. In this sense, concepts such as equality and rationality cannot be maintained unless societies create impersonal



identities along those dimensions, altering individual dispositions or preferences to form habits.

Institutions can be formal or informal. Formal institutions are normally understood to be written rules and procedures such as constitutions, laws, statutes, contracts, formal social conventions and so on. Informal institutions, on the other hand, are shared beliefs about the world and may operate behind, between and within the formal institutions underlying and supplementing them, thus influencing how political organization is used to structure the social order, and they are developed and communicated through the cultural or customary practices of societies or groups (Helmke & Levitsky 2006, 5). The effect on the presence (or efficiency) of an institution, either formal or informal, could increase returns from (or the efficiency of) others (Hall & Soskice 2001, 17), and their joint existence could reinforce their political resilience (Schneider & Karcher 2010, 18).

These two kinds of rule can be enforced either by the organizations of the state or by other cultural practices. The importance of state enforcement lies in the fact that it determines its legal status; that is, any institution enforced by the state, whether formal or informal, can be considered as a legal institution.<sup>17</sup> Accordingly, we shall mainly focus on four kinds of institution: 1. any kind of

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<sup>17</sup> Between 2008 and 2009, I worked for the Superior Auditing Organism of the Mexican Federation (ASF – Auditoría Superior de la Federación), auditing the way the local councils spent the money they received from the Federation. In Mexico, the local councils have autonomy in the administration of their resources. The auditing was mainly based on a small number of federal public finance laws which regulate the way the money is given and the ways in which it can be spent, but mainly on the local public finance laws, which regulate the way the money is administered. What surprised me was that some local governments, in the poorest parts of the country, did not have written laws to administer the money; they used to do it based on informal or unwritten laws which were enforced by official organizations. In some cases these informal rules were even more effective than the written rules in some other local governments. See Tsai (2007) for similar cases in China.

enacted legislation based on constitutional provisions and the constitution itself that is enforced by the organizations of the state; 2. unwritten laws sanctioned and enforced by the organizations of the state; 3. any kind of enacted legislation based on constitutional provisions and the constitution itself that is not enforced by the organizations of the state; and 4. unwritten laws that are not sanctioned and enforced by the organizations of the state but are enforced by the cultural practices of the population.<sup>18</sup>

### **1.3.2 Organizations**

Organizations, on the other hand, are the tools that individuals use to increase their productivity, to seek and create human contact and relationships to increase their productivity, to coordinate the actions of many individuals and groups, and to dominate and coerce others (North *et al. op. cit.*, 7). Organizations also comprise internal rules which structure the behaviour of their members towards the attainment of organizational goals. Therefore, they can be subsets of institutions. Nonetheless, once established, they provide, along with institutions, the macro-structure through which individuals interact and can shape and influence each other.

There are two main conceptualizations of organizations: as *single actors or players* (North 1981 and 1990; Tilly 1992; Leftwich 2007), and as *groups of individuals* (North *et al. op. cit.*). Organizations understood as single actors or players could help us to analyse the constraints and incentives that organizations face in engaging with the different actors of society. This would be

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<sup>18</sup> We recognize that there are many non-state actors, both licit (NGOs, multinational corporations, family business groups) and illicit (crime organizations), that also create and enforce their formal and informal rules. However, these cannot be considered legal since they are not enforced by the state.

the right path to follow if we wanted to explain, for instance, the interests, purposes or aims behind the interactions of the different actors in society in alleviating poverty. However, the main problem with the single actor conceptualization of organizations is that it does not pay attention to the way in which organizations fulfil their goals, which, for our purposes is vital since we want to explain how and why elite groups influence the economic and political system to structure the state and society in a way that impedes the poor from obtaining a sustained income.

For the purposes of our research then, we shall understand organizations as groups of individuals, formal or informal, in which there are defined and accepted roles, positions and responsibilities structured in some relationship to each other, pursuing a mix of common and individual goals through partially coordinated behaviour (North *et al. op. cit.*, 15). In order to make the members of organizations commit to the arrangements among themselves or between the organizations and outside actors, they have to rely on third-party enforcement, which is normally provided by the state's organizations, which ensure that law is enforced impartially and impersonally (*ibid.*, 14). Seeing organizations in this way will allow us to shed light on issues such as the political processes that shape their internal structure or purposes and how they enable or impede the distribution of goods and services.

Shedding light on these aspects is very important for our research because, as argued above, although we recognize that there are different aspects that can influence the reproduction or alleviation of poverty, we are mainly interested in the role of the state. In this sense, and according to the theoretical framework

that we have developed so far, it is important to uncover the political processes that shape the state's organizational framework to understand the extent to which the functioning of the latter can impede the distribution of goods and services, such as education, that can have an impact in alleviating poverty. We shall now discuss the importance of state intervention in alleviating poverty.

#### **1.4 The importance of state intervention in alleviating poverty**

We have already briefly explained the role of the state in achieving social order. However, our purpose in this chapter is to shed light on why it is important that the state intervenes to alleviate poverty and, perhaps more important, the extent to which it can contribute to or impede its achievement. For that purpose, we have first to draw on the work of Karl Polanyi (1944) and T.H. Marshall (1950), who succinctly expressed the logic of institutional political economy analysis to explain the importance of state intervention to coordinate the economy to avoid poverty and social violence from appearing. In the broadest terms, Polanyi argued that the importance of state intervention in the economy relies on the fact that there are markets (labour, natural resources and money) that cannot be left to follow their own dynamics – as the pro-market theorists intend – because when that happens it is the citizenry who bear the costs of the market failures. That is, workers, peasants and medium and small business become vulnerable to the failures of those markets which reinforce each other, bringing about or increasing the levels of unemployment and the socio-economic inequalities of the citizenry and thus triggering social diseases such as poverty and social violence (2001, 90-140).

More precisely, the problem of leaving those markets to follow their own dynamics is, in the broadest terms, that, on the one hand, sudden reductions in the supply of money and credit can bring about a general fall of prices, which could trigger business destruction because the costs of production for business, which are normally fixed by contract, remain the same since a time lag is needed before they can be adjusted to the new level of prices (*ibid.*, 201-205); on the other hand, the deregulation of the labour and natural resource markets leaves workers and farmers, especially those at the bottom of the social structure, vulnerable to falling into poverty since they live under the threat of being fired at any time or unable to compete against international competitors that offer cheaper prices, without any financial support to cope with their living expenses when they are unemployed. Consequently, it is necessary that the state intervenes to adjust the supply of money and credit to avoid deflations that would put businesses in danger of liquidation, to implement labour market policies and to maintain continuity in the production of natural resources by protecting peasants from imports to avoid unemployment in order to prevent social diseases such as poverty and social violence from appearing.

In this sense, for Polanyi, a free-market capitalist system, like the one established initially in England during the industrial revolution and which expanded all over Europe in the nineteenth century, is a utopia that cannot be achieved without at the same time destroying society (*ibid.*, 3-4). The Great Depression, at the beginning of the twentieth century, just one decade before World War II, was, according to Polanyi, one of the consequences of the self-regulated market model (*ibid.*, 148-149). The main problem with such a system then, is that the state withdraws from coordinating the economy, losing its

strength to react in favour of the society when the market institutions fail, which brings about a climate of economic instability that puts the social order in danger since every social group would act on their own to protect their interests. Notwithstanding, it was established in England because it was the outcome of a conscious intervention of the government in favour of the private sector elites which called the government into action to liberalize the economy to their benefit, arguing that the increasing industrialization of the country required it (*ibid.*, 258).

The establishment of a self-regulating market is therefore such a violent event that the different groups of the social structure will respond with a counter-movement to protect themselves. The most outstanding counter-movement in England was carried out by the labour movement (Marshall & Bottomore 1992, 73), since workers were extremely dissatisfied with the poor working conditions and unemployment brought about by the deregulation of the labour market that the British state carried out in favour of the private sector to make it more competitive.<sup>19</sup> As time went by, and the number of the unemployed and poor increased, a process of democratization was initiated by diverse social groups, especially workers, who struggled for political rights such as universal suffrage and the right to be able to run for a position of authority in order to be part of the decision-making process and improve their socio-economic conditions.

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<sup>19</sup> Among other labour market reforms, the British government curtailed the subsidies in aid of wages that assured workers a minimum income irrespective of their earnings (only those at risk of starvation would be relieved) and pushed for the flexibilization of wages and hiring and firing so that national enterprises could lower their production costs and compete internationally. See Polanyi (2001) chapters 7-9 for a detailed explanation of the reforms and their consequences.

According to Bottomore, the struggles continued into the twentieth century and broadened into campaigns for social rights, instigated by trade unions (Marshall & Bottomore *op. cit.*, 73) that created, along the way, political parties to organize their voices and raise their demands. The socio-economic inequalities brought about by the self-regulated market, however, were not the only factor that triggered the struggles for political and social rights in England. Marshall and Bottomore argued that political and social rights were actually an extension of civil rights that had been attained, one century earlier (in the eighteenth century) by the bourgeoisie of medieval towns in opposition to feudal aristocracy in the early stages of the development of industrial capitalism (*ibid.*).

Accordingly, civil rights were the first rights to be attained for two main reasons: 1. the formation of the modern nation-state in Europe during the seventeenth century called for legal reformation to clearly define citizens within a geographical border to increase the sovereignty of the state, and; 2. they were indispensable for the establishment of capitalism since they confer the legal capacity to acquire property, conclude valid contracts (including employment), and establish associational organization, freedom of speech and the right to justice (*ibid.*, 8). O'Donnell argued that at the beginning, elites were fearful of granting legal agency to citizens without “moral and cognitive capabilities” (2001, 19). However, they saw them as an opportunity to increase their rents by also expanding the number of people with whom they could make contracts without losing their prerogatives since they had control of the political and judicial systems.

The problem here was that elites thought that the system that they had created was unassailable and decided to take it too far by granting the right to collective bargaining in order to be able to control big groups of workers with few contracts. As a consequence, as argued above, many groups, especially workers, saw this as an important instrument to organize and struggle for the equalization of their socio-economic conditions, demanding that as citizens they were entitled to social rights such as “economic welfare and social security to live the life of a civilized being according to the standards prevailing in the society” (Marshall & Bottomore *op. cit.*, 8). The great disaffection of the different social groups with the outcomes of the self-regulating market meant that the postwar era, in the twentieth century, was marked by state-dominated development strategies and the size of the state expanded considerably, especially through the provision of social rights for poor and/or vulnerable people, which culminated in the creation of the welfare state (*ibid.*, 8-49).

Marshall claimed that at the beginning, social rights were at a minimum since the common purpose was only to abate poverty without disturbing the pattern of inequality that elites had established, which involved the need to guarantee a minimum income extended to all citizens in the form of a social right to replace the market as the only redistributive mechanism (*ibid.*, 27-28). However, eventually political and private sector elites realized that social rights were actually not a threat to capitalism since that kind of assistance relieved industry from social responsibility outside the contract of employment. Accordingly, Haagh noted that within this realm there are occupational rights, which aim at dealing with employment problems by forms of assistance such as



unemployment insurance, access to training at work and between jobs, access to unions and effective mechanisms of job relocation (2002, 89).

Consequently, to protect citizens' civil, political and social rights, the state would need an impartial and impersonal rational-legal framework and a progressive taxation system that could balance the quality of public and private goods, thus lowering inequality, which in turn would legitimate the tenure of the taxation system. Once citizens see this institutional framework as permanent, it can be said that they have impersonal and impartial access to pursuing their individual and group goals in the polity and the economy, and that only then will citizens be treated equally. We have argued so far why state intervention is important to reduce socio-economic inequality. We shall now proceed to discuss the role that the state plays in alleviating poverty under the logic of the current poverty paradigm which the CCTs are based on and finally the extent to which the institutional capacities of the state can contribute to or impede alleviating poverty.

### **1.5 The role of the state in alleviating poverty**

Adam Smith argued that in a free-market capitalist system, socio-economic inequality is inevitable and the state plays an important role in equalizing the socio-economic conditions of society because a more productive and equal society would foster economic growth. Smith was opposed to any intervention or regulation which interfered with market mechanisms as long as it did not harm the poor, exacerbating the socio-economic inequalities. Whenever this was the case, he emphasized the importance of state intervention to restrain the power of the capitalists, since they could institutionalize poverty and

inequality by constraining access to basic services such as education. According to Smith, the differences in education brought about the inability of the workers to comprehend both the surrounding environment and how to improve their conditions, while the elites perfectly understood the interests of society and used that knowledge for their personal benefit (1976, 128).

The distribution of education and training could help to equalize the opportunities of the poor to have an occupation, which, for Smith, was the difference in people's success in living the life that they found worth living. To achieve this, Smith found it important as well to have a progressive taxation system that could help the state to redistribute income and spend money on social programmes and public services. According to him, it was not "unreasonable that the rich could contribute to the public expense, not only in proportion to their revenue, but something more in that proportion" (*ibid.*, 825), since the actions of the state would benefit the different groups in the social structure from the poorest to the richest. Moreover, for him, by redistributing wealth and income, the owners of the means of production and wealth were protecting themselves, since otherwise the deprivation of capabilities would force the poor to beg or steal.

Working on Adam Smith's ideas and after the disappointing results of the marketization of the economy in developing countries of the 1970s and 1980s, Amartya Sen (1993; 1999a and 1999b) criticized the logic behind the pro-market reforms which understood development in terms of the achievement of economic growth. According to Sen, measures such as the growth of gross national product (GNP) or industrialization did not take into account people's

interests in equalizing their opportunities or freedom to pursue the way of life that they wished. Accordingly, he suggested the notion of *capabilities* as the measure that makes it possible to take into account the interests of people to equalize their opportunities or freedom to pursue the way of life that they wished as both the paramount goal of development and the leading means of achieving economic growth.

This conception is centred on the individual, more “concerned with the removal of disadvantages or sources of unfreedom and the creation of opportunities to lead worthwhile lives” (Anand & Sen *op. cit.*, 2). In this sense, poverty is a consequence of human underdevelopment, and human development is conceptualized as the "*capability* that every single person is able to do or be – the various functionings he or she can achieve" (Sen 1993, 30). Accordingly, functionings are different from commodities; a commodity is an object which a person could use such as a house or food, while a functioning is the aspect of living in a way desired by the individual. Consequently, and in contrast with previous definitions and measurements of poverty that were merely comparisons of the levels of income or living standards (consumption) (Lister 2004, 1), from the capabilities approach perspective, income and consumption are just tools to achieve what really matters: the spectrum of choices and opportunities for living in a way desired by the individual.

The achievement of that life is determined by a set of capabilities that represent the opportunities a person has to achieve the desired life. An increase in the capabilities of each person will improve their freedom to choose the way of life that they value the most and wish to live. The human development

perception, then, consists of the removal of major sources of un-freedom socially, politically and economically arranged such as poverty, the lack of economic opportunities such as finance, neglect of basic services such as education and health care, the lack of opportunities to participate in the public decision making-process and the privation of social protection, which would reinforce and enhance people's capabilities to maximize their potentialities (Sen 1999b, 38-40).

Accordingly, poverty is seen as "the worst form of human deprivation since it can involve not only the lack of the necessities of material well-being, but also the denial of opportunities of living a tolerable life" (Anand & Sen *op. cit.*, 4). The change of paradigm from income or consumption to the notion of capabilities "enhances the understanding of the nature and causes of poverty by shifting attention away from means (such as income) to ends that people have reason to pursue, and, correspondingly, to the freedoms to be able to achieve those ends" (Sen, 1999b, 90). Within this notion, poverty means the impossibility of carrying out autonomous life projects, since poor people lack equal opportunities to acquire or access the means to pursue their projects.

According to Sen, the definition of the necessary capabilities to remove the sources of un-freedom such as poverty should be an empirical matter, resulting from 'public discussion and reasoning on what should be included and why within a democratic environment, which would lead to a better understanding of the role, reach and significance of particular capabilities' (Sen 2004, 77). This has brought about different attempts to operationalize it both empirically and

philosophically.<sup>20</sup> However, it has been the annual United Nations Development Programme (UNDP) Human Development Report (HDR) where Sen's approach has been operationalized the best, having become since 1990 the main paradigm in poverty alleviation. In the broadest terms, a person is poor if he/she lacks basic capabilities in three dimensions: health, education and income (life expectancy at birth, years of schooling and gross national income *per capita*). As a result of these deprivations, the poor are limited in their opportunities to pursue their social, political and economic goals.

This has led to a renewed emphasis on the importance of the role of the state as a crucial actor in alleviating poverty by providing basic services such as health care or education so that the poor can obtain a sustained income in the labour market to move out of poverty, materialized, among other policies, in the CCTs. However, unlike Adam Smith, who pointed to the taxation system as an important tool that would allow the state to equalize the opportunities of the poor in the occupational realm, Sen's view falls short in explaining the causes or consequences of unequal distribution or redistribution of public services and resources that bring about the inequalities in obtaining the means so that the poor can pursue their life projects, such as the inequality of income generating capabilities to obtain a sustained income in the labour market. As a matter of fact, the Human Development Index (HDI) only makes a comparison between

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<sup>20</sup> Nussbaum, one of the closest of Sen's collaborators, has argued that there are at least ten central human capabilities: (1) Life; (2) Bodily health; (3) Bodily integrity; (4) Senses, imagination and thought; (5) Emotions; (6) Practical reason; (7) Affiliation; (8) Other species; (9) Play; and (10) Political and material control over one's environment (2005, 41-42).

the actual distribution of health, education and income and an ideal equal distribution.<sup>21</sup>

This makes the paradigm difficult to employ in contexts of high socio-economic inequality such as in Latin American and some African countries where, among other important factors, the institutional weakness of the states is one of the key causes that prevent the equal distribution of resources and services that could have an impact in alleviating poverty. For instance, Saha found that in sub-Saharan African countries, the lack of the participation of the poor in the policy process brings about poor targeting of poverty-reduction policies and a misappropriation of project finances intended for combating poverty, since poverty is analysed from beginning to end by civil servants not directly affected by the phenomenon (2008, 269). Ranis and Stewart, on the other hand, found that effective social expenditure is an important variable for reducing poverty in low or middle income countries such as Mexico or Tunisia (*op. cit.*, 192).

This thesis intends to contribute to filling that gap by providing an example of the way in which the institutional weakness of the state can prevent the *Oportunidades* programme – based on the HDR and Sen’s views – from enabling the poor to obtain sustained income in the labour market to move out of poverty. As previously argued, poverty is a multi-dimensional phenomenon whose causes are determined by several factors such as economic policies or the independent dynamics of the markets. We shall focus only on the extent to

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<sup>21</sup> The standard measure, the Gini coefficient, captures the idea that complete equality would be manifest if every person earned the same income, whereas complete inequality would result if a single person held all national income.

which the weakness of the institutional capacities of the Mexican state has impeded the *Oportunidades* programme from enabling the poor to obtain sustained income in the labour market to move out of poverty. But, what is the state and how can its institutional capacities contribute to or impede the alleviation of poverty?

## **1.6 The capacities of the state to alleviate poverty**

### **1.6.1 The regulatory-market capacity of the state**

The idea of the modern state as we know it nowadays was born in the seventeenth century in Europe after the Treaties of Westphalia in 1648, which recognized the autonomy and sovereignty of the subscribing states (Axtmann 2004, 260). As argued above, in pre-modern states, control over territory was in the hands of either a traditional or a charismatic authority. In the former case, obedience was a matter of personal loyalty within the area of accustomed obligations either by the citizens or by the administrative staff; in the latter, the leaders were obeyed by virtue of personal trust in their qualities by the citizens or the administrative staff (Weber 1964, 328). These states were distinguished by the "absence of any shape of institutional infrastructure to rule and govern, formally separated from the rulers and officials who ran them, on the one hand, and the citizenry, on the other" (Leftwich 2008, 216).

Weber argued that the operation of a capitalist system could only have flourished in a state whose basis is a rational rule of law ascribed for its exercise to a professional bureaucratic body of organizations "juridically located in a particular territory in charge of making and implementing policies to carry out certain functions of the state using, if necessary, force" (1978, 54). To

ensure of the impartiality and impersonality of law enforcement and the effectiveness of the implementation of policies, bureaucrats should be recruited on the basis of technical qualifications tested by examination or diplomas that certify technical training, and be remunerated with salaries according to their responsibilities. In addition, employment should be full-time and stable, allowing them to pursue a career within public service, being promoted on the basis of seniority or achievement or both, and to have a hierarchical chain of command and a set of rule-based procedures (Weber 1964, 333-334).<sup>22</sup>

For Weber, then, the state was an organization of groups of highly skilled bureaucrats claiming control over a territory through its rational-legal institutional ensemble and invested with the authority to make binding decisions for the common good of its citizenry, using force when necessary. The state that Weber portrayed, however, was an ideal type whose characteristics were only established in developed countries. Consequently, due to the many differences in their formation, a comparison with developing countries would be meaningless. Therefore, we need to look in more detail at the institutional characteristics of states in the developing world in order to extract lessons from states in similar circumstances.

#### **1.6.1.1 The regulatory-market capacity of the state in the developing world**

In the literature, three kinds of state in the developing world have been classified following Weber's ideal: *predatory*, *desarrollista* and *developmental*

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<sup>22</sup> For Weber, only the supreme chief of the organization occupies his position of authority by virtue of appropriation, of election, or of having been designated for the succession (1964, 333)



(Evans 1989, 561; Schneider 1999, 276). Developmental states are characterized by an impersonal, highly developed bureaucratic apparatus, selected through a meritocratic process in which public servants can follow long-term career paths which allow them to achieve expertise in the exercise of their activities and reach high posts with competitive salaries in the governmental organizations. Accordingly, the apparatus operates under durable and clear rules and norms, providing corporate coherence and insulation in its relationship with other actors of the social structure, which allows them to work closely with them (creating informal institutions along the way), channeling domestic and international initiatives into areas of priority for the state to secure development objectives, and, when necessary, playing the role of a surrogate entrepreneur to support the growth of national and international industry (Evans 1995, 12). Although these states are not paragons of virtue and they are hardly immune to corruption (Evans 1989, 572), the embedded autonomy of their bureaucrats has mattered even more to decreasing poverty and inequality than the high educational levels of their citizens in countries such as Korea and China (Chang 2010, 179).

Predatory states, on the other hand, are characterized by their fragile institutional-legal structures, which limit or open access to resources depending completely on the individual identity and personality of the people. In this sense, there is a complete absence of an institutionalized bureaucratic apparatus that harnesses the interests of the different actors of the social structure into areas of general interest. Consequently, they have huge problems in enforcing law which brings about high levels of corruption and economic and political

instability (Evans 1989, 562). Zaire and some other countries of sub-Saharan Africa have been considered as the archetypal cases of such a state.

It has been argued that there is an intermediate case of states that occasionally approximate to embedded autonomy, but not sufficiently to give them the transformative capacity of developmental states. This intermediate case, also called the *desarrollista state*, is characterized by “a fluid, weakly institutionalized bureaucracy in which appointments structure power and representation” (Schneider 1999, 278). The impossibility of constructing a highly developed bureaucratic apparatus in these countries is rooted in the weak law enforcement due to the historical pervasive influence of domestic traditional elites and international actors in the policy-making process (Vanden & Prevost 2002, 146). This brings about a wide gap between the *de jure* and *de facto* systems that governmental organizations use to avoid the structure of the bureaucratic apparatus legislation by hiring personnel through temporary appointments (Grindle 2010, 5-7), which impedes the formation of certain ties with the private sector to channel their initiatives into areas of priority for the state while helping them to grow, and pushes public-private interaction into individualized channels.

Latin American countries perfectly fit into this type of state. As a matter of fact, as explained above, after the birth of the Latin American modern nation-states at the beginning of the twentieth century, the reasoning was that the path to development was through developing internal economic capacity while continuing to export primary products. Consequently, when the ISI model was implemented, domestic or business groups (BGs) were encouraged to set up

new industries and expand old ones, and multinational corporations (MNCs) were invited in to set up plants to supply the domestic market (Vanden & Prevost *op. cit.*, 161). Additionally, the most powerful unions were in key areas such as education, natural resource industries and health care (Bensusam 2006, 348-349; Schneider 2009, 11). However, due to their weak regulatory-market capacity, the military dictatorships that took over after the birth of the Latin American modern nation states manipulated those social groups through corporatist and clientelist practices which perpetuated or even increased the socio-economic inequality inherited from colonial rule (Teichman 2008, 448).

The Washington-Consensus reforms of the 1980s aggravated these trends even more, bringing about a business-led development project in which social, economic and political relations between the different societal actors came to be commanded by those with more economic power (Schneider 2009, 3-6). The MNCs taking control of high technology sectors, and the BGs of lower technology and the service sectors, became so powerful that they have influenced the adjustment of the labour norms and regulations to their benefit, bringing about high levels of labour informalization and economic insecurity. In addition, they pushed for the shrinking of workers' organizations, which were the only force that could counterbalance them, in order to diminish their labour costs, bringing about less employment protection and fewer important benefits such as training or social security schemes. According to Schneider and Karcher, union density varied from 20-25%, in Brazil, Argentina and Mexico, to 10–15% in Peru, Colombia and Chile, which, joined to the new adjustment of the labour norms and regulations, has brought about income insecurity since

the median job tenure in the continent is three years, whereas in developed countries it ranges from 5 to 7.4 years (*ibid.*, 7).

### **1.6.2 The fiscal capacity of the state**

Weber's disciple Joseph Schumpeter (1991) argued that the Weberian definition was accurate but incomplete. He claimed that Weber had focused on the state's means or capacities for the fulfillment of its economic development functions, ignoring the rest of the functions of the state such as the equalization of socio-economic conditions. Accordingly, he noted that it was not only the bureaucracy and the rule of law which characterized and differentiated the modern state from its predecessors, but also the taxation or fiscal systems. Schumpeter argued that the pre-modern states in Europe faced two main problems which led them to sign the Treaties of Westphalia: 1. the financial difficulties of warfare, the expenses of which were normally met by the leader and not by state revenues, and 2. the lack of confidence of the people in the traditional or charismatic leader's methods to raise and use funds (*ibid.*, 107).

These problems led European monarchs to increase direct taxation, bargaining with their societies' elites, which prompted, on the one hand, the rise of parliaments and, on the other, the growth of the state's taxation or fiscal systems, which penetrated the private economies, winning dominion over them. The relevance of the taxation system then is twofold: on the one hand, it is part of and complements the necessary institutional ensemble of any state, and on the other, it gives rise to an inclusive social contract between the citizens and the state by which the former agree to pay taxes so that the state can carry out

its functions, whereas the latter commits to using the revenues collected for the common purposes of the society that it represents.

Following the line of thinking of Schumpeter (1991), Esping-Andersen analysed the institutional structure of the fiscal capacity and the political orientation of different European and developed states to understand not only what kind of social rights were granted to the citizens, but also how welfare systems worked. He argued that there are two kinds of welfare system used by states to accomplish their social objectives. On the one hand, there is the narrow and residual category, in which the pillars of social protection are seen as separate processes, whose aim is social and political stability mainly pursued through the implementation of compensatory policies for the poor against market failures. On the other hand, there is a holistic view, focused on the role of the state in providing economic security so that every individual is able to participate in the life of the society and fully develop her or his capacities (1990, 1).

According to Esping-Andersen, there are three main principles that define the whats and hows of following any of these views: 1. the degree to which social rights decommodify citizens; that is, the degree to which individuals, or families, can uphold a socially acceptable standard of living independent of market participation; 2. the way in which state activities are interlocked with the roles of the market and the family in social provision; and 3. the system of stratification promoted by social policies which provide social rights (*ibid.*, 21-37). Working with these three principles and reviewing the path-dependence of the welfare systems of different states, he identified three

different regimes with similar patterns of resource mobilization, political ideologies and institutional structures.

The *liberal* type presents normally low levels of decommodification and favours minimal state intervention and strong involvement of the private sector in welfare spending (*ibid.*, 26-27). In this model, citizens are constituted as individual market actors and they must seek their welfare in the market. Accordingly, labour markets are deregulated since it is believed that in this way they reinforce employment growth, which normally brings about high levels of labour informalization and economic insecurity. Their security schemes are normally conditional on means-testing and market-based insurance. To different scopes and degrees, the conventional examples of this type are the United States, Canada and Australia.

In the *conservative* type of state, the level of decommodification is modest, the intervention of the state is seen only when the family's capacity to help its members is exhausted, and the intervention of the private sector is marginal although the involvement of civil society is strong in the bargaining of labour rights, which brings about a rigid labour market regulation. Their security schemes are normally income transfers to satisfy the basic needs of households. The archetypical examples of this type are Austria, France, Germany and Italy (*ibid.*, 27).

The third type is the *social democrat* type, in which the level of decommodification is very high. This state is the most successful model in terms of poverty reduction and equality of economic opportunities for human development (Wilkinson & Pickett 2009, 17; Haagh 2011a, 45). By making universalism its main principle for the distribution of public services and social

rights benefits, and by marginalizing the role of the private sector in welfare provision, this kind of state gives the citizenry access to the public policy-making process and is focused on maximizing labour supply and promoting full employment (Huo *et al.* 2008, 1). Examples of this kind of state are the Scandinavian states, Sweden, Denmark and Norway.

To make a whole review of the Scandinavian system is outside the scope of this thesis; however, their experiences give us five important lessons in regard to poverty alleviation. First, large-scale poverty reduction is not possible without an institutional framework that ensures a sufficiently high collection of revenue through a progressive and effective tax system so that the state can fulfil its functions, allocating resources where they are most needed. Second, there is income redistribution through income transfer systems composed of: 1. universalistic benefits related to work contingencies such as unemployment insurance financed from general tax revenue, 2. earnings-related benefits against contingencies such as maternity and old age financed by employer and employee contributions and 3. social assistance supplements for those in poverty such as the CCTs financed from tax revenue.<sup>23</sup> Third, the mobilization of workers channeled through unions is a crucial determinant of the provision of social protection to the citizens since when workers are properly organized they can bargain for larger benefits. Fourth, high levels of fiscal decentralization, armoured with strong constitutional protections that ensure the political autonomy of local governments, are important to allow the effective delivery of public goods and resources to where and how they are most needed (Sellers &

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<sup>23</sup> Aspalter highlighted the fact that in much of Latin America, the 1960s saw the creation of extensive welfare state systems as well along the continental European model, with social security and social assistance systems in addition to systems of social and health-care services (2008, 783).

Lindstrom 2007, 616-618). Fifth, their institutional framework equalizes individual opportunities in relation to the occupational realm because labour markets are regulated in terms of hiring and firing and wage setting. In addition, workers are given continuous access to social reproduction processes (education, health and training), enhancing their human development and ensuring their constant incorporation in the labour market. All these characteristics enable people to achieve economic security beyond what a basic income alone could achieve, which at the same time legitimates the distribution of resources for economic adversities even though some people have more resources than others (Haagh 2011a, 45).

We have argued so far that in social democrat countries, the coordination and distribution of resources through the institutional and organizational framework of the fiscal system is the state capacity that allows them to maximize social welfare by equalizing the opportunities of the poor in relation to the occupational realm. They provide universal social protection (social insurance, direct assistance and so on) and the sources and services (education and training) to increase their capabilities, which increases the scope for poverty alleviation, legitimating the tenure of a high and progressive taxation system. So, if inclusive states are those whose policies are directed towards addressing the needs of all their citizens and creating equal opportunities for all, what are the factors that constrain the Latin American states, preventing them from becoming inclusive and from fulfilling their welfare functions?

#### **1.6.2.1 Fiscal capacity of the state in developing countries**

Wood and Gough have argued that in developing countries it is not only the relationship between the state, the market and the family that determines



the welfare outcomes of the population (poverty, inequality, unemployment). According to them, the informal institutional arrangements within developing countries, which are normally characterized by patron-client relationships and the influence of international actors (donors, institutions of development, transnational corporations, international NGOs, MNCs) that could be as strong as or stronger than the state, must be taken into account as well, since they can shape the formal institutional structure of the state and the political mobilization of the different actors in the social structure (2006, 1696-1697). Taking these aspects into consideration, they identified two kinds of welfare regime in the developing world: *insecurity regimes* and *informal security regimes*.

The main difference between these two regimes is basically the extent to which the state intervenes in market regulation, which is determined by the strength of its institutional capacities. In the former, the feeble institutional framework of these states impedes them completely from harnessing the interests of the different actors of the social structure in pursuit of the general interest, which brings about conflict and political instability, which in turn generate gross economic insecurity – among other perverse effects – and block the emergence of stable informal mechanisms to mitigate the effects (*ibid.*, 1699). As a consequence, there is a great dependence on international aid to finance their welfare systems since they cannot create ties with the different actors of the social structure to extract resources from them. To different degrees and extents, most of the sub-Saharan African countries have developed insecurity regimes.

Informal security regimes, on the other hand, refer to institutional arrangements by which people rely heavily upon social relationships to meet

their economic security needs, which normally results in the exclusion of those at the bottom of the social structure, and these can be divided into two types: those in which there is a strong presence of the state in the market, such as the East Asian states, and those in which there is a mild intervention of the state in the market, such as the Latin American states. As argued above, the strong institutional framework of the former allows them to harness the interest of the private sector in pursuit of the general interest. However, they have subordinated social policy to the maintenance of high economic growth rates as a developmental goal, concentrating social spending on health and education only, rather than on social protection (*ibid.*, 1706). As a consequence, they have created neither formal nor informal ties with the civil society to allow them to shape policy and ensure the effective delivery of goods and services, leaving those at the bottom of the social structure vulnerable to the shocks of the economy.

In Latin America, on the other hand, the notion of citizenship differs from that in developed countries because the first rights that were granted were social rights – to keep social groups under control – along with protective economic measures in the context of the ISI model, although more limited than in western countries, and then political and civil rights. In this context, a combined *conservative-informal* welfare state that relied on stratified social insurance and employment protection as the core of welfare production that applied only to the formal sector (from the industrial and public sectors), leaving the informal sector workers unprotected (Barrientos 2004, 167), was developed. In addition, there was an aspiration, although it was never achieved, to develop universal education and health services to improve the human capital of the

labour force. Under this model, urban employment grew by about 4% a year between the 1940s and the early 1970s, and by the late 1970s income inequality and poverty were clearly decreasing (Altimir 1998, 4-5).

However, due to their low levels of tax collection, the oil crisis of the late 1970s had a great impact on most of the Latin American countries, which could not continue to invest in social spending, the ISI system and paying their external loans. In this context, the IMF and the World Bank agreed to finance Latin American and some other developing countries on condition that they redefined their institutional and organizational framework. In the broadest terms, these international organizations argued that the Latin American debt crisis had been the result of the fact that the structure of the welfare states was too obese and that they could no longer deal with the issues projected on a global stage, such as the expansion of international trade and financial integration, for which the ISI system was to be replaced with export-growth oriented strategies and social spending cuts. Accordingly, the welfare state that has been developed has been classified as liberal-informal since compensatory policies are directed only at the poorest; “employment protection has withered in the face of labour market adjustment, social insurance was replaced by individual savings and market provision, and private financing and provision of health and education were encouraged” (Barrientos *op. cit.*, 156).

As a result, the private financing of basic services such as education, joined with the low levels of social spending (around 0.04% of GDP, compared with 0.23% to 0.52% in developed countries) brought about by the institutional weakness of the fiscal capacities of these states, has increased the gap of skills

between the rich and the poor. In addition, despite the fact that it is estimated that nowadays more than 50% of the population in Latin America is made up of self-employed workers, or workers in micro-enterprises with less than five workers (Schneider & Karcher *op.cit.*, 9), with some exceptions such as Brazil, Latin American states spend very little on active labour market policies aimed at fostering the development of human capital, the creation of jobs or intermediation between the employers and employees (Bertranou & Maurizio 2011, 17-23). On the other hand, passive labour market policies, such as unemployment insurance, have only been developed in Argentina, Brazil, Chile, Ecuador, Uruguay and Venezuela, although in most of these coverage and benefits are very low (*ibid.*).

## **1.7 Conclusions**

The analytical framework that we have presented in this chapter suggests that the capacity of states to fulfil their functions stems from the extent to which their institutional framework supports complex and specialized organizations through which the different groups in society can pursue their political and economic goals irrespective of the personal identity of the leaders. Accordingly, poverty alleviation is a function of the state because the state itself could create it or reproduce it through its institutional and organizational ensemble by limiting access to valuable resources and activities that allow the citizenry to obtain sustained income in the labour market. In this sense, it is essential to understand the extent to which the institutional framework of the Mexican state has led to failure in poverty alleviation preventing the

*Oportunidades* programme from enabling the recipients to obtain sustained income in the labour market.

In the East Asian states, a strongly institutionalized bureaucratic apparatus has allowed them to intervene in the economy and harness the interests of the private sector into areas of public interest, bringing about, to some extent, poverty reduction. In the Scandinavian countries, on the other hand, their institutional framework has supported complex organizations that have been able to work with civil society and extract revenue from the elites and the rest of the society to protect the social rights of the citizens taking into account their interests. In contrast, in most of the Latin American countries, the institutional weaknesses of their regulatory-market and fiscal capacities have complemented and reinforced each other, thus impeding the alleviation of poverty.

However, the developmental and Scandinavian experiences can only provide examples but not solutions, since the historical traditions and social configurations out of which they arose cannot be identically reproduced. As noted by North *et al.*, Latin American cases represent an intermediate case of states in development because instead of granting impersonal and defined rights, since their creation they have been the adopting institutions of other societies. As a consequence, they have only mildly addressed issues such as poverty, violence and so on (2009, 257). Consequently, an individual review of the states of the region is necessary in order to uncover the extent to which their institutional framework impedes the alleviation of issues such as poverty.

In the next chapter, we shall explore in more depth the effects that the structural reforms had on the institutional capacities of the Mexican state, the

way in which the *Oportunidades* programme works and the context that the ex- recipients face when they try to obtain sustained income in the labour market in order to set up the scenario for our field work.

## CHAPTER 2

### THE CONDITIONAL CASH TRANSFER PROGRAMMES AND THE STATE IN LATIN AMERICA: THE MEXICAN EXPERIENCE

#### Introduction

As previously argued, the structural reforms implemented in the late 1970s and early 1980s worsened even more the socio-economic inequalities of the Mexican and Latin American citizens, increasing the levels of poverty. In this sense, it could be said that socio-economic inequality is the main challenge for Latin America. In the last two decades Latin American countries have undertaken a path towards the equalization of the poor's socio economic conditions with the implementation of the CCTs, which would allow them to have access to basic services such as health and education, acquiring capabilities that enable them to obtain sustained income in the labour market to move out of poverty by their own efforts.

In the first chapter, we discussed why state intervention in the labour market to alleviate poverty is important and, by drawing on the experiences of some developed and developing countries, we showed the extent to which the institutional capacities of the state can be a key factor in alleviating poverty. The aim of this chapter is to review in depth the effects that the structural reforms have had on the institutional capacities and the welfare model of the Mexican state, the way in which the CCT programmes work, examining the Mexican experience with the *Oportunidades* programme, and the context which the recipients face when they try to obtain sustained income in the labour market. All of this will allow us to set up the scenario for our field work.

The chapter is divided into five main sections. In the first, we review the environment that paved the way for the structural adjustment reforms that were implemented in the 1980s and its effect on the institutional capacities and the welfare model of the Mexican state. In the second section, we review the way in which the *Oportunidades* programme has evolved in the last three decades. In the third section, we review the outcomes of the *Oportunidades* programme in terms of the education levels of the recipients. In the fourth section we analyse the Mexican labour market. The fifth section concludes the chapter.

## **2.1 The structural adjustment and its effects on the capacities of the state and the welfare system**

In this section, we shall review the economic, political and social conditions of Mexico during the 1980s and their effects on the regulatory-market and fiscal capacities of the state in order to explain the way in which the welfare system in Mexico has evolved in the last three decades. The main argument is that due to the weakness of the fiscal and regulatory-market capacities of the state, the influence of local and international private actors has determined the path of the residual welfare model implemented in Mexico since the 1980s.

In the post-war period (1940s-1970s), known as a period of 'stabilizing development', Mexico's economic development strategy relied upon state intervention to encourage the industrialization of the country, mainly of urban areas, and protecting domestic manufacturers from international competition by means of ISI programmes. During this period, one of the main political actors was the PRI political party, which ruled Mexico from 1929 to 2000. In the course of the stabilizing development period, this political party built a corporatist and clientelist relationship with the private sector and different social actors,



directing social protection schemes only to those well-organized enough to demand them, such as state workers (the armed forces, the judiciary, and so on) and the formal workers of the private sector, excluding workers in the informal sector. In addition, since basic services such as education and health are considered as rights in the Mexican Constitution, the state complemented that model with the universal provision of those services and universal subsidies for rural and urban areas (Scott 2009, 11; Moreno-Brid *et al. op. cit.*, 156).

However, not only was the universal coverage of basic services never achieved, but also the quality of the services provided was low. Notwithstanding, the ISI programmes and the quasi-universal welfare system implemented from the 1940s to the 1970s were, to some extent, successful. Mexico's annual labour productivity growth rate was around 2.1% and GDP per capita grew annually between 3.0% and 4.0% in real terms (Cárdenas *op. cit.*, 271), as a result of which it was known as the 'Mexican miracle'. The social contract implemented was an inclusive one since the economic and social models were seen as complementary, "the poverty alleviation strategy and the wider development strategy were one and the same" (Székely & Fuentes *op. cit.*, 125), and the informal and formal sectors were close to one another, in consequence integrating most of the actors of the social structure, and bringing about low rates of unemployment and poverty (Escobar & González 2008, 40-41; Moreno-Brid *et al. op. cit.*, 168).

Nonetheless, the social rights provided were, on the one hand, just a way of keeping the different social groups under control to keep the ISI system working and on the other hand, the industrial policies could not find a sector that could compete strongly internationally (Moreno-Brid *et al. op. cit.*, 157).

Moreover, although the country produced much of the merchandise that was traded, the technology with which the products were produced was imported. In the late 1970s, Mexico was attempting to replace the technology as well. However, the industrial programmes of the state tended to “operate in combination with regressive or only mildly progressive tax structures and low tax revenues” (Teichman 2008, 447), leaving the oil profits and international aid as the only sources of finance, bringing about procyclical social spending and economic volatility.

Most of the Latin American countries have historically suffered from the resource curse. Mexico has been no exception; the decline of oil prices at the beginning of the 1980s joined with the globalization of the economy forced the political authorities to implement measures to control the macroeconomic stability of the countries. After the 1982 collapse of oil prices, tied to rising inflation and high interest rates on its external debt, Mexico confronted its most serious economic crisis since its birth as a nation-state in 1917, with poverty and socio-economic inequality as the most prevalent effects, which implanted the belief that the *conservative-informal* welfare model was exhausted. Consequently, President López Portillo (1976-1982) declared that it was not possible to continue paying Mexico’s external debt, which brought about a domino effect over the whole of Latin America, where most of the countries found themselves in a similar situation with unpayable external debts (Sánchez 2006, 775).

Due to the debt crisis, Latin American governments were no longer able to finance public spending through foreign borrowing because the region was shut off from international capital markets (*ibid.*). Thus, conditioned and

encouraged by the International Monetary Fund (IMF), Latin American countries initiated a process of state reform that would mark the end of the conservative-informal state and begin the era of the 'liberal-informal state' (Barrientos *op. cit.*, 156). Seeking to reduce the huge fiscal deficit, lower inflation rates, address macroeconomic instability and adjust to the new global order, the Mexican government cut public spending, eliminating most of the state subsidies, reduced the size and scope of the state by dismantling or privatizing state-run companies, and opened up the economic and finance sectors.

The problem was, as Fukuyama pointed out, that "in the process of reducing the scope of the state those reforms decreased its strength or generated demands for new types of state capabilities that were either weak or nonexistent" (2005, 20). During the industrializing period, the state's revenue was mainly levied on industrial production, natural resources (mainly oil-related profits) and international trade with special schemes for workers in the primary sector and tax exemptions for corporations that invested in key industrial sectors and indirect taxation was based on a single turnover tax (Alvarez 2007, 5). However, according to Haber *et al.*, taxes came in the form of rents distributed to politicians, labour leaders, and the rank and file of labour unions. Consequently, so that private enterprises could generate sufficient profits to pay rents to political elites and remain in business, the state allowed them to write the regulations governing their own activities, by providing subsidized production inputs, by crafting regulatory barriers to market entry that helped maintain oligopolies and monopolies, and by protecting domestic producers from foreign imports via tariffs and import permits (2008, 39-41).

The fiscal system was part of the first generation reforms during the early 1980s and it was reformed to enhance the openness of the economy and achieve macroeconomic stability and fairness in income distribution.<sup>24</sup> The main reforms were the enacting of the Fiscal Coordination National System (FCNS) Law, with the purpose of avoiding double or triple taxation and improving the fiscal relationships among the three levels of government, the reform of Article 15 of the constitution in 1983, which delegated to the municipalities the responsibilities for providing some public services, the recognition of inflation effects in the tax bases, the reduction of personal income tax in order to enhance the integration of corporations and individuals, the introduction of Value Added Tax (VAT) in order to raise indirect tax collection, and the introduction of a scheme of income tax levied in a global scheme for both individuals and corporations, which includes all kinds of realized income, among others.<sup>25</sup> These reforms helped the state to achieve macroeconomic stability and lower inflation (Alvarez 2007, 7). However, the tax system is still far from providing the Mexican state with enough non-oil revenues to fulfil its functions, and in relation to the GDP it is around 4.5 points below the average of Latin America for both indirect and direct taxes and 25 points below OECD countries.<sup>26</sup>

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<sup>24</sup> Burnell identified at least three generations of reform. First generation reforms included macroeconomic stabilization, tariff and budget cuts, privatization, and the like. The second generation reforms began in the late 1980s, introducing governance considerations such as the civil service, and the delivery of public services, of the institutions that create and maintain human capital (for example, schools and the health-care system), and of the environment in which private firms operate (more competition, better regulation, stronger property rights). In the late 1990s, a third generation added social policy concerns in the form of poverty reduction strategies within international development (2008, 296-297).

<sup>25</sup> Some of the services that were delegated to the municipalities were: drinking water, public lighting, rubbish collection, public markets and public municipal safety.

<sup>26</sup> See OECD tax database. <http://www.oecd.org/tax>. Accessed: November 2010.

The main reasons for this have been the following. First, the influence of the international and local private sector, which had greater participation in areas previously reserved for state-owned enterprises, to which the state “grants extensive tax preferential treatment, currently accounting for about half of tax revenue” (Alvarez 2009, 18). After the signing of NAFTA, there has been a focus on fostering the growth of the manufacturing sector as the main strategy for generating employment. Therefore, corporate income tax reductions and duty free VAT exemptions on imports of machinery, equipment, parts and material have been granted in order to “set a competitive level against trading partners: USA and Canada” and China (Alvarez 2007, 6-8).

Second, under the FCNS arrangement, the federal government collects around 90% of the total government revenue, which leaves the state and municipal governments in uncertainty about the budget that they are going to receive the following year.<sup>27</sup> Also, this highly centralized scheme has favoured the construction of an informal scheme of negotiation between the sub-national and federal authorities, where the political criteria affect the allocation of the resources (Cabrero & Zabaleta 2011, 372). Politicians under strong political competition direct more resources to those regions with high voter turnout, or leave segments of the population untaxed. Moreover, the federal government has focused on trying to decentralize the pull of federal revenue collection without helping or encouraging states and municipalities to improve their institutional capacities first. For instance, in 2004 state governments were empowered to tax individual income obtained from professional services, leases of fixed property, disposal of property, and business activity. Nevertheless, “by

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<sup>27</sup> The main formula used to allocate these resources is mainly based on the effort that local government put into tax collection and the number of people living in a certain region.

2006 only three state governments – Chihuahua, Guanajuato, and Oaxaca – had already implemented some form of local cellular tax” (Alvarez 2007, 20).

As a result, the Mexican state has been unable to mobilize enough resources towards social needs and the generation of employment despite the fact that public expenditure has increased in recent years. Therefore, the state has had to implement a residual welfare model directed only at the poorest, who have to be involved in participating in the solution to their own problems.<sup>28</sup> Moreover, due to its weakly institutionalized bureaucratic apparatus, the state has been unable to find sectors in which it could have a competitive advantage and this has impeded employment generation.<sup>29</sup>

The bureaucratic or civil service reform, on the other hand, was part of the second generation reforms, which included governance considerations mainly pushed by the World Bank (2002). This reform was considered to be one of the most important in the history of the country for scholars, researchers, politicians and society in general (Méndez 2004; Merino 2004) since it “aimed for the first time at introducing merit as the guiding principle for selecting personnel policies across the federal government agencies” (Dussauge 2011, 53). The law sought to establish “a mechanism for guaranteeing equal opportunity of access to the public administration based on merit and with the goal of advancing the development of public administration for the benefit of

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<sup>28</sup> According to Bayón, the quasi-universal social protection and redistributive policies (subsidies) were thought to be ineffective since the middle and upper classes were part of them. The competition that would come along with the privatization of services would improve their quality and would save money for the state, which needed to recover after the debt crisis (*op. cit.*, 3).

<sup>29</sup> On average, the Mexican state has invested less than 0.4% of GDP in Research and Development, whereas some other OECD countries such as Korea spend at least ten times more. See OECD [http://www.oecd-ilibrary.org/economics/country-statistical-profile-mexico\\_20752288-table-mex](http://www.oecd-ilibrary.org/economics/country-statistical-profile-mexico_20752288-table-mex), accessed: 12/08/2011.

society” (Article 2, LSPC 2003, my translation). However, the patronage and clientelist legacies and issues with the design and implementation of the civil service have constrained the development of an effective bureaucratic apparatus.

The key point that allowed the implementation of the civil service was the implementation of electoral democracy in the early 1990s (Panizza & Philip 2005, 690). The public sector reforms in Mexico were always restricted to some degree by the PRI political party, whose officials used the resources of the state to reward party members and party activists for political support rather than to represent the interests of society. When Vicente Fox took over in 2000 representing the right-wing political party PAN, reform of the civil service was made one of the main priorities of the government. The civil service reform was part of the 2000-2006 Presidential Agenda of Good Government, which aimed at building institutions for markets. However, reformers had to use “non ‘market-reform’ arguments such as the consolidation of democracy and the reconstruction of state capabilities” (*ibid.*, 691) in order to prevent people from associating the reform with the negative effects of the first generation reforms, finally enacting the Federal Public Service Career Law (LSPC – *Ley del Servicio Profesional de Carrera en la Administración Pública Federal* in Spanish) in 2003.

The new law only applied to around 40,000 workers at the federal level, leaving aside the unionized officials and those who work in offices where the state and the private sector share control. Therefore, it is a limited law if we take into account the fact that the number of civil employees of the whole Federal

Public Administration is more than 1,500,000, (Grindle *op. cit.*, 15). Moreover, the traditional appointing methods are still used; the governmental officers have found gaps in the law to keep appointing positions. Dussauge found that many workers are appointed using Article 34 of the LSPC, which “was originally introduced to allow for non-competitive, temporary appointments, needed in case of emergencies and other exceptional circumstances” (*op. cit.*, 62). In 2007, Felipe Calderón (2006-21012) brought in changes with the aim of improving the effectiveness of the law. In particular, he “provided additional requirements for using Article 34 of the LSPC-2003, in order to limit the number of non-competitive appointments that were apparently being made for partisan reasons in most cases” (*ibid.*, 67). However, he opened a window to patronage and clientelism by leaving every ministry in charge of the implementation of LSPC without clear rules of inspection, constraining the development of an effective bureaucratic apparatus.

In the local governments the situation was even worse. For instance, in the case of the states by 2008, only eleven out of the 32 had introduced a LSPC.<sup>30</sup> However, even in the states that have civil system laws, the same patron-client legacies that impede the development of an effective bureaucratic apparatus at the federal level do the same at the state level. Moreover, despite the fact that most of the public servants hold bachelor degrees and have some experience, their human resource systems lack the technical and organizational expertise to put it into operation (Martínez 2008, 213-214).

The situation of the municipalities is the worst of the three levels of government. Cabrero and Zabaleta found that most of the municipalities in

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<sup>30</sup> Aguascalientes, Baja California, Chiapas, Distrito Federal, Hidalgo, Michoacán, Nuevo León, Quintana Roo, Veracruz, Tlaxcala and Zacatecas.



Mexico, even the urban and metropolitan ones, lack important basic rules and norms such as those that regulate basic aspects of the political structure or those of citizen participation in the activities of the municipalities. Moreover, most of the municipalities still lack civil service systems that provide corporate coherence and allow the public servants to gain experience as well. This, in consequence, brings about feeble intergovernmental relations between the different levels of government (*op. cit.*, 378-391).

By the early 2000s, the goals of the structural reforms had been accomplished, having been successful in lowering inflation, reducing fiscal deficits and to some extent income inequality as well. According to Handelman, in Mexico economic growth was also stimulated for the first time since the Mexican miracle (1997, 127). However, poverty rose inexorably during this period since the openness of the economy profoundly changed the governance of labour markets in middle-income countries where there was a relaxation of traditional employment protection, such as occupational welfare, job security and severance pay, bringing about a blurring of the division between the formal and informal sectors since employment shifts became more frequent and volatile (Haagh & Cook 2005, 171-172). This, along with the decline in the quality of public services such as education and health care due to the cuts in public spending, has seriously aggravated the situation of the middle and lower classes, especially the poor in urban areas, since the industrialization of the stabilizing period had transformed the country's society from a rural to an urban context (around 75% of the whole population) (Moreno-Brid *et al. op. cit.*, 157; Scott 2010, 6).

We shall now review the Mexican anti-poverty policy *Oportunidades* and its effects on the education of the recipients and also briefly the Brazilian experience with *Bolsa Familia*. Brazil is one of the countries that is leading the way towards social citizenship in Latin America. In this sense, the review of both programmes will give us important elements of analysis to make some comparisons about the way in which both have achieved their goals.

### **2.1.1 The marketization of social policy and employment in Latin America: the Brazilian experience.**

The consequences of the structural reforms put pressure on Latin American leaders to find ways to tackle inequality and poverty. The introduction in the early 1990s of the CCTs was one of the main responses to these pressures, especially in Latin American countries, which have some of the highest levels of inequality in the world. In the last two decades, this programme has been used as one of the main poverty alleviation strategies all over the continent; Brazil has *Bolsa Familia*, there is *Chile Solidario* in Chile, Colombia has its *Familias en Acción* programme (FA), Ecuador *Bono de Desarrollo Humano*, Honduras the *Programa de Asignación Familiar* (PRAF), Jamaica the Programme of Advancement through Health and Education (PATH), and Nicaragua the *Red de Protección Social* (RPS).

*Bolsa Familia* was the flagship of the Brazilian Workers' Party and was created under the command of Luiz Ignacio Lula da Silva (2003-2006). The main goal of the programme was to break the intergenerational cycle of poverty by helping the poor to acquire capabilities that would improve their chances of

obtaining a sustained income in the labour market.<sup>31</sup> In *Bolsa Família*, Da Silva centralized the programmes of direct assistance that already existed and expanded the coverage quite quickly; by 2006 it was already covering 11.2 million families, becoming the biggest CCT programme in the world.

In the educational component, the objectives of the programme are, as we shall see later, very similar to those in *Oportunidades*: to increase educational attainment to reduce poverty in the long run, to reduce poverty in the short term with a grant, to reduce child labour and to serve as a safety-net for poor families, preventing them from becoming vulnerable to sudden shocks in the economy. The programme has been successful in achieving most of its objectives; however, its success comes from the strong institutionalization of the labour market, which has been materialized in the reduction in the levels of labour informalization and economic insecurity. According to ECLAC, in Brazil since 2005, the annual employment rates have been higher than the unemployment rates, while in Mexico since 2001, the annual employment rates have been lower than the unemployment rates (2010, 122-123 and 234).

Table 2.1 shows how, in Brazil, extreme poverty has been drastically decreased in the last decade, whereas in Mexico it has been reduced at a slower pace. Unlike the Mexican case, the central factor that shaped the Brazilian labour market response to the liberalization of the economy was the fact that the inception of a democratic regime started first and this was followed by the opening of the economy, which allowed the state to take advantage of its developmental tradition (corporatism) and the collective and social capacities of

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<sup>31</sup> *Bolsa Escola* (Education), *Bolsa Alimentacao* (Nutrition), *Cartao Alimentacao* (Nutrition) and *Auxilio Gas* (Electric Energy) (Decree No. 5.209 of 17 September 2004).

its unions in order to adjust the institutional framework of the labour markets to the new conditions (Haagh & Cook *op. cit.*, 179). According to de Andrade *et al.*, the main changes introduced were: 1. the expansion and introduction of legal open-ended contracts (temporary work contracts, part-time contracts, and so on); 2. the increase in the state's revenue collection to tackle the growing public debt; 3. the adjustment of institutions that allow a real enforcement of open-ended contracts and the bargaining of employment conditions; 4. the formalization of micro and small enterprises, allowing access to credit and tax incentive programmes, which has contributed to the formalization of employees contracted by small businesses; and 5. the increase in the minimum wage (*op. cit.*, 8-31).<sup>32</sup>

**Table 2.1 Patterns of extreme poverty from 1980 to 2011 (%)**

<b>Year</b> <b>Country</b>	<b>1981</b>	<b>1990</b>	<b>2000</b>	<b>2008</b>	<b>2011</b>
Mexico	13.48	18.32	15.20	11.20	....
Brazil	24.80	23.40	13.05	7.30	6.1

Source: ECLAC 2004, 2010 and 2012.

## 2.2 The introduction of CCTs in Mexico

Miguel de la Madrid Hurtado (1982-1988) was the president who started the implementation of the pro-market structural reforms. Under de la Madrid's command, the government cut public spending, eliminating most of the state subsidies, reduced the size and scope of the state by dismantling or privatizing

<sup>32</sup> According to ECLAC, in 2004 the minimum wage in Brazil was 69 dls and the urban poverty line was 53 dls, while in Mexico, the minimum wage was 124 dls while the urban poverty line was 150 dls (54-57).

state-run companies, and opened up the economic and finance sector (Handelman *op. cit.*, 127).<sup>33</sup> Unexpectedly, from 1980-1988, GDP declined on average around 2.0% annually and income per capita in 1988 was 10.38% lower than in 1980 (Morley 1997, 158).

The presidential election of 1988 demonstrated how severely the economic crisis had resulted in disaffection with the PRI political party, which had ruled Mexico without problem since 1929-1930. President Carlos Salinas (1988-1994) took office after a highly contested election deeply tainted by fraud. However, although the structural reforms were initiated by de la Madrid, it was Salinas who consolidated them. As a matter of fact, he proclaimed Mexico's formal entry into the first world after its acceptance as a new member of the Organization for Economic Cooperation and Development (OECD) (Erfani 1995, 16), his privatization programme, and the linkage of the Mexican economy to those of the United States and Canada with the signing of NAFTA (the North American Free Trade Agreement).

In this context, seeking to revive the confidence of Mexico's citizens, he launched *Pronasol* (National Solidarity Programme in English), a compensatory or means-tested programme whose main objective was to reduce poverty, creating social funds as targeted safety-nets for the poorest who did not have income-earning capacities (Székely & Fuentes *op. cit.*, 131), along with measures that would encourage their participation as a condition for obtaining

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<sup>33</sup> From the 1940s to the late 1970s social spending represented 9% of GDP; however, after the crisis of 1982, total spending collapsed by 30% (Scott 2009, 16). In addition, between 1982 and 1992, the number of state enterprises was reduced from 1,155 to 280. Privatized firms included telephone companies, airlines, copper mines, sugar refineries, steel mills and food processing plants, as well as hundreds of smaller parastatals. Salinas also modified some articles of the Mexican Constitution in order to foster privatization of land tenure, university education and the pension system (Handelman *op. cit.*, 120-135).

benefits (Piester 1997, 469). The programme included food support aid, credits to farmers, grants and scholarships for children, building and refurbishing public schools, communal electrification, street paving, drinking water, health care, nutrition, housing and other similar measures.

*Pronasol's* main accomplishments were twofold: 1. “to revive social spending for Mexico’s poor. From 1988 to 1991, expenditure on social development rose from 14.9 percent to 26.5 percent of the national budget” (Handelman *op.cit.*, 109), and 2. the programme was centralized by the federal government, bypassing the state and municipal levels of government to channel resources to projects decided at the community level, recognizing the need to improve the state-society relationships to implement successful public policies. However, the programme was criticized as being corrupt and clientelist, and it was used more as a political tool for electoral purposes than as an effective poverty-reduction programme. Molinar and Weldon have argued that most of the funding was concentrated on states with impending elections, particularly on places that had strong sympathy for the opposition political parties (1994, 136).

Under Salinas, GDP recovered, growing 2.0% annually; however, income inequality and urban poverty kept on growing. Moreover, socio-economic inequality was practically eliminated from the policy agenda (Camp 2002, 253). By the end of his period, not only had socio-economic inequality and corruption reached levels never seen in Mexico since colonial rule, but also the EZLN rebellion in Chiapas against NAFTA, the assassination of Luis Donaldo Colosio,

and the collapse of the Mexican currency aggravated the situation even more.<sup>34</sup> Additionally, during this decade the worldwide wave of democratization hit the country and after the accusations of fraud in the presidential election of 1988, Salinas created the Federal Electoral Institute in 1990 as an autonomous organization in charge of organizing the federal elections.

Ernesto Zedillo therefore inherited a serious political and monetary crisis. In this context, a new means-tested programme was launched with the intention of raising the human capital of the extreme poor through the provision of cash conditional upon a change in their behaviour as a way to alleviate poverty. In 1997, Zedillo announced the start of *Progresa* (an Education, Health and Nutrition Programme) supplanting *Pronasol*, a programme with similar goals but more concerned with the causes rather than the consequences of poverty. The programme provided a cash transfer delivered every two months to extremely poor families conditional upon the school attendance of their children, who had to be enrolled between the third grade of primary school and the third grade of secondary school, and health checks for the whole family, especially pregnant and nursing women, on a regular basis. The general idea behind the programme was to provide a minimum income to the poorest so that they could invest it in the education and health of their children who, once educated and healthy, would acquire capabilities that would enable them to keep on obtaining an income in the labour market in the mid and long-term to move out of poverty by their own efforts (Levy 1991, 44-55).

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<sup>34</sup> The EZLN was a social movement that rebelled against NAFTA and in general against economic globalization on the same day NAFTA was supposed to come into effect, arguing that the poor were going to be the most negatively affected by the integration with the United States. Luis Donaldo Colosio, on the other hand, was the candidate appointed by Salinas to take over the presidency of Mexico. However, some months before the election he was assassinated during his campaign, and Salinas chose Zedillo as his successor.

However, to achieve these aims, the architect of the Mexican CCT programmes *Progres-Oportunidades*, Santiago Levy, believed that, in a middle-income country such as Mexico, state intervention to provide labour market policies that complement the CCTs to allow the poor to keep on obtaining an income to satisfy their needs in the mid and long-term was necessary for three main reasons. First, the huge socio-economic inequality between the rich and the poor in Mexico forces the state to provide the necessary infrastructure and/or basic services that otherwise the poor would not be able to reach and that affect their socio-economic conditions such as education or training, health centres and so on. Second, identifying the poor is difficult and costly, which could bring about a situation in which non-poor people were selected and this is the reason why focusing on creating the conditions so that the poor can obtain a sustained income in the labour market by their own efforts is a key issue. Third, it is important to avoid the creation of a class of 'welfare dependents'; the incentive structure must be such that, at the margin, it always benefits the poor to work and earn additional income (1991, 51-53).

Accordingly, *Progres-Oportunidades* was first directed at rural areas, where the incidence of poverty was higher at that time, and using a well-supported criterion to identify the right families and avoid clientelism the targeting methodology comprised three phases: 1. zones were selected according to the marginality index of the National Council of Population (CONAPO) and the availability of education and health centres was a prerequisite for the operation of the programme in order to encourage the state and municipalities to invest in social development; 2. households were assessed by a survey which, using statistical methods (discriminant analysis), would determine whether the



household was poor or not; and 3. the final list of families integrated into the programme was presented to representatives of the community for revision. The programme was also said to avoid welfare hazards since it had been mainly designed to change the behaviour of families. For instance, in order to empower women and change their role within society, the cash transfer was given to the mother of the household, and in order to encourage girls to stay in school, after elementary school the amount of the cash transfer was higher for them than for boys. Finally, it was also expected that the recipients would take advantage of the employment opportunities and labour market policies that the new economic model would provide for the citizenry.

When *Progresa* was launched in 1997, it covered around 300,000 families in rural areas of twelve states. By the end of Zedillo's term of office, it covered almost 2,500,000 families living in marginal rural areas all over the country. The early evaluations of *Progresa* demonstrated significant impacts on the well-being of the recipients, such as increasing school attendance and improving health outcomes (Adato 2000; Behrman & Hoddinott 2000; Parker & Skoufias 2000). Due to the good initial results of the programme, Vicente Fox (2000-2006) not only maintained the programme but also expanded it. Nowadays, the programme, re-named *Oportunidades* in 2002, covers more than 6,000,000 families, in both rural and urban areas.

Fox took over in 2000 representing the right political wing PAN, after 70 years of the hegemony of the PRI, in a stable political, economic and social context. This takeover by the right-wing party, however, is far from being the consolidation of democracy in Mexico. On the contrary, it seemed to be more a

logical step after the arrival of neo-liberalism (Otero 2004, 10). According to Bayón, the course of action of the National Action Party is in line with the Washington Consensus (*op. cit.*, 2). As a matter of fact, when Fox took over, not only did social and economic policies remain the same but so did most of the members of his cabinet as well. The main changes that the programme incorporated were the coverage of urban areas, grants to students in high school, a pension for elderly people and an official definition of poverty. Following Amartya Sen's distinction between absolute and relative poverty (Anand & Sen *op. cit.*, 4), it was argued that the former is the deprivation of basic capabilities to subsist (nourishment and health) and the latter is the lack of adequate means in a specific society to achieve those capabilities (Sedesol 2002, 19).

Felipe Calderón Hinojosa (2006-2010), also from the right-wing political party, took over in a highly contested election against Andrés Manuel López Obrador, who represented the left-wing Political Party PRD (the Democratic Revolution Party). Calderón did not inherit any kind of crisis. However, when he faced the food crisis in 2007-2008 and the financial crisis in 2008-2009, he not only continued spending on social programmes and maintained *Oportunidades*, but also expanded the programme making three main additions that were part of a strategy which he labelled: *Vivir Mejor* ('To Live Better'): 1. children from birth to nine years old were included in the programme; 2. the creation of the Living Better Fairs (*Ferias Vivir Mejor* in Spanish) with the purpose of letting the ex-recipients know about the options for study that exist so that they keep studying when they have finished high school and; 3. the creation of the website *Vas con Oportunidades* ('Go ahead with *Oportunidades*', in English) with the

purpose of giving information to the ex-recipients about ways to finance further study, such as scholarships or grants or information about the labour market policies offered by the federal government to society in general. Additionally, he made it an official requirement that in order to be able to apply for a grant from *FONAES*, a fund that provides subsidies so that the poor can start up a business, applicants have to prove that they belong to a social development programme.

As we have seen, the programme has kept growing; however, it is still financed from the oil profits and loans from international institutions of development due to the weakness of the fiscal institutions. In 2008, for example, the Inter-American Development Bank approved a loan of \$2 billion to expand the programme and in 2013 approved another loan of \$600,000,000.<sup>35</sup> Moreover, as shown in Table 2.2, the recipients have many responsibilities to fulfil in order to receive the benefits; however, even though the recipients fulfil their responsibilities they do not have access to employment, which is the main goal of the programme. We shall expand on the latter point in the following chapters. For now, it is relevant to review whether it is actually helping people to acquire capabilities that could allow them to obtain sustained income in the labour market.

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<sup>35</sup> See <http://www.emol.com/noticias/internacional/2008/12/17/335694/bid-concede-credito-de-us-2-mil-millones-a-mexico-para-lucha-antipobreza.html> accessed: January 2011 and <http://es-us.finanzas.yahoo.com/noticias/presta-bid-m%C3%A9xico-600-mdd-programa-oportunidades-165827321--finance.html> accessed september 2013. See also <http://www.iadb.org/es/noticias/comunicados-de-prensa/2004-03-26/mexico-y-bid-firman-convenio-de-25-millones-de-dolares-para-programa-de-incentivos-para-atraer-empresas-al-sector-formal,1542.html> accessed: November 2010.

**Table 2.2 Oportunidades main rights and duties**

<b>Education</b>	
<b>Benefits</b>	<b>Co-responsibilities</b>
<p>Cash Transfers are delivered to the mother every two months until secondary school and to the student in high school. There are school grants from third grade in elementary school to twelfth grade in secondary school and/or high school. In elementary school grants are the same for girls and boys and vary from MXP \$145 (around 7 pounds) to MXP \$290 (around 15 pounds) with an extra grant of MXP \$195 (around 10 pounds) to buy materials twice a year. In secondary and high school the grants are higher for girls than for boys and vary from MXP \$425 (around 20 pounds) to MXP \$810 (around 40 pounds) for boys and from MXP \$450 (around 22 pounds) to MXP \$925 (around 45 pounds) for girls, depending on the school grade in which they are enrolled, and an extra grant to buy materials once a year of MXP \$365 (around 18 pounds).</p> <p>There is an extra grant for young people who finish high school before the age of 22 of MXP \$4 044.77(around 202 pounds).</p>	<p>Regular attendance at school. If a child has more than four non-justified absences in a month, then the scholarship for that month is suspended. If a child has more than twelve non-justified absences in a three-month period, or three temporary suspensions, the scholarship will be suspended for the rest of the school year.</p> <p>For high school, it is mandatory to attend seven educational sessions and complete the requirements to be enrolled in the next grade.</p>
<b>Health</b>	
<b>Benefits</b>	<b>Co-responsibilities</b>
<p>Provision of a set of basic health services.</p> <p>Encourages preventative health through educational sessions especially nutrition in pregnant women and babies with the delivery of nutritional supplements.</p> <p>Check-ups are required for the whole family, but children and pregnant women are the main target.</p> <p>An additional cash transfer for adults older than 70 is provided MXP \$305 (around 15 pounds).</p>	<p>Registration with the local health units is mandatory. There are mandatory regular check-ups; the frequency depends on age and priority is given to small children and pregnant and nursing women.</p> <p>Monthly attendance by the members of the family at education sessions on health.</p>
<b>Nutrition</b>	

Benefits	Co-responsibilities
<p>Nutrition cash grant per household of MXP \$220 (around 11 pounds).</p> <p>A cash grant of MXP \$120 for rising prices due to the food crisis in 2007-2008 (around 6 pounds).</p> <p>A cash grant for energy expenses of MXP \$120 (around 6 pounds).</p> <p>An additional cash grant of MXP \$120 (around 11 pounds) is given to families with children from 0 to 9 years old, due to the financial crisis.</p>	<p>Attendance of the families at their health checkups.</p> <p>Presence of the mother at health sessions.</p>
<p>Source: SEDESOL 2011 (the comparative currency is pounds sterling).</p>	

### 2.3 *Oportunidades* and the Educational Component

Education is the component of the *Oportunidades* programme on which most money is spent. Moreover, as far as social spending is concerned, education is the area on which the country spends the most, at around 6.6% of GDP. However, the low levels of taxation revenues have brought about an educational gap of nine years between the richest and the poorest (Scott 2010, 1). This means that while members of the poorest population attend one or two years of elementary school, those of the richest population complete at least high school and most of them have access to university. This gap was brought about as well by inappropriate public spending since during the postwar period most of the poor were concentrated in rural areas, and public spending on education was directed towards universities, which were established in urban areas. It was not until the 1990s that social spending was directed towards basic education at the lower levels (Scott 2009, 18).

Accordingly, the main achievements of the programme in this component have been the high enrolment and attendance of children (especially girls) in

primary and secondary schools (*ibid.*, 19). However, although school attendance has increased in recent years (see Table 2.3), the gap between the poorest and the richest has widened, especially in high school and upper levels, which are the most important in terms of integration into the labour markets in an adverse context of slow growth-employment such as in Mexico (Moreno-Brid *et al. op. cit.*, 155; Bayón *op. cit.*, 309-310). A likely reason for this is the fact that most of the high schools and universities in the country are private schools (Brunner *et al.* 2008, 18), which puts the poor in a very weak position to compete against the general population for the few places in the public universities.

**Table 2.3 Scholarships 2000 to 2009**

School level Year	Primary school	Secondary school	High school	Total
2008-2009	2,496,012	1,751,866	782,363	5,030,241
2007-2008	2,586,258	1,768,341	771,160	5,125,759
2006-2007	2,728,676	1,757,110	739,530	5,225,316
2005-2006	2,867,760	1,734,643	696,353	5,298,756
2004-2005	2,854,886	1,629,449	616,044	5,100,379
2003-2004	2,609,692	1,432,254	535,063	4,577,009
2002-2003	2,588,587	1,330,589	436,751	4,355,927
2001-2002	2,046,407	1,012,152	266,965	3,325,524
2000-2001	1,677,138	808,185	--	2,485,323

Source: [www.oportunidades.gob.mx](http://www.oportunidades.gob.mx), accessed May 2011.

In this context and in view of the developmental and Scandinavian states' experiences that we discussed in Chapter 1, it would be more important for poverty alleviation to have an employment generation strategy since access to the upper levels of education is not the only constraint. Despite the fact that the internationalization of education is an important strategy of the Mexican state, according to the Programme for International Student Assessment (PISA) of

2010, which evaluates how educational systems prepare students for life in a larger context, the average Mexican student is one of the worst performers in Latin America.<sup>36</sup> Moreover, the levels of education in these families are very low (see Table 2.4) and according to Arias *et al.* the secondary level is the minimum level required so some enterprises decide to train their own workers (2005, 19) and in some cases high school is needed as the minimum level to work for some enterprises and even for the government.

**Table 2.4 Levels of education per age of the recipients of *Oportunidades***

Age \ Years of school	00	1-5	6-8	9	10 or more	Total
16-24	10.3	4.3	8.6	6.4	4.0	33.7
25-35	5.7	7.2	8.7	4.5	2.7	27.2
36-45	5.0	7.5	4.8	1.7	0.5	19.6
46-55	4.9	4.9	1.5	0.3	0.1	11.7
56-65	4.4	2.7	0.4	0.0	0.0	7.6
Total	30.3	26.6	24.0	12.9	7.3	100.0

Source: Levy (2007, 17).

Furthermore, the evaluations have also indicated that “high schools and universities in Mexico have, at best, very weak ties with the productive sector in general and with industry, in particular” (Brunner *et al. op. cit.*, 50). In this context, Escobar and González (2002 and 2006) argued that in semi-urban and urban environments there are not enough opportunities for the populations to be involved in the labour market, which leads to the unsustainability of their households. According to Moreno-Brid *et al.*, the answer depends not so much on “opportunities per se, but on whether the Mexican economy can grow rapidly and create enough jobs” (*op. cit.*, 167).

<sup>36</sup> See <http://www.oecd.org/pisa/pisaproducts/pisa2009keyfindings.htm>. Accessed: November 2011.

Sedesol concluded in 2006 that only 20,000 families, from more than 5,000,000 that were receiving the cash grant, had graduated from *Oportunidades*, having an income high enough to satisfy their food, health and education needs.<sup>37</sup> However, Levy (2007) reported that in 2005 there were more than twelve million economically active people who belonged to *Oportunidades*, around 25% of the total economically active population, and only 6% had access to social security (see Table 2.5), and in comparison with the active economic population, only 1.5% had access to social security (see Table 2.6). At this point, it is relevant to review the context that the recipients face when they finish high school and try to obtain sustained income in order to set the scene for our empirical research.

**Table 2.5 Workers who belonged to Oportunidades**

Sector	Profession	%	Social security	Without social security	Total
Formal	Labourer/share-cropper	47.7	147,679	6,005, 621	6,153,300
	Mason/worker/employee	32.1	579,726	3,561,174	4,140,900
Informal	Employer	1.2	20,743	134,057	154,800
	Independent	8.7	39,281	1,083,019	1,122,300
	Housemaid	11.3	2,851	164,849	167,700
	Member of cooperative	11.7	13,377	205,923	219, 300
	Assistant on Ranch	22.2	7,946	275,854	283,800
	Owner of land	22.0	7,998	250,002	258,000
	Other	22.9	21,324	352,776	374,100
Total		1100	840,925 (6%)	12,033,275 (94%)	12, 874,200 (100%)

Source: (Levy 2007, 17-18).

<sup>37</sup> See [www.sedesol.gob.mx](http://www.sedesol.gob.mx). Accessed: May 2010.



**Table 2.6 Active economic population in 2005**

Concept	PEA	%
<b>Formal</b>	17,158,987	39.1
Salaried with IMSS <sup>38</sup> , ISSSTE or other social security service	16,512,821	37.7
Oportunidades with IMSS	646,166	1.5
<b>Informal</b>	26,707,666	60.9
Salaried (tax evasion)	3,258,908	7.4
Nonsalaried	14,370,998	32.7
Salaried with Oportunidades (tax evasion)	4,440,824	10.1
Nonsalaried with Oportunidades	4,636,937	10.6
Source: Levy (2007, 23).		

#### **2.4 Mexican labour markets and their informal flexibility**

The main advantage of our perspective on the institutions and organizations of the state and their interaction with the welfare system is that it helps us to shed light in more detail on some of the specific causes of the disappointing adjustment of the labour markets to the openness of the economy during the 1980s than previous explanations (see Schneider & Karcher *op. cit.*). As for the role of the Mexican state in that regard, we argue that the main issue is the weakness of its institutional capacities, which have brought about an increase in the levels of labour informalization and economic insecurity. More specifically, the weakness of the regulatory-market capacity of the state has brought about less employment protection, triggering short job tenure, which, joined with the weakness of the fiscal capacity of the state that constrains the effective provision of basic services such as education, impede the citizens from obtaining sustained income in the labour market, as we shall see next.

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<sup>38</sup> IMSS: Mexican Institute of Social Insurance and ISSSTE: Institute of Security and Social Services of the State's Workers.

### 2.4.1 Weak enforcement of the labour regulations

The Mexican labour market model of the post-war period was the result of the process of the integration of the different social groups to maintain social stability and at the same time to provide the labour institutional environment of a capitalist system. It was a top-down process that was materialized in Article 123 of the Mexican Constitution and the Federal Law of Employment (LFT – *Ley Federal del Trabajo*, in Spanish). According to Bensusam, the enactment of the LTF in 1931 and the new law of 1970 were to counterbalance Article 123 of the constitution, which gave occupational rights to the people without taking into account the BGs and the MNCs, harming their interests.

This, added to the 1929 crisis, forced the state to enact a law that protected the interests of the private sector, expanding the limits of the discretion of the state to intervene in the conflict between labour and capital both in times of growth and stability and in times of economic crisis (2006, 137). It was thought that with the LFT and a system of labour justice that worked under the executive branch without formal ties to judicial power, the control of the different actors of the social structure would bring about social stability, allowing economic growth to be achieved.<sup>39</sup> The reality was that the state controlled the private sector and civil society through corporatist and clientelist relationships, channeling their demands into personal relationships, which limited the expansion of universal social rights.

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<sup>39</sup> The organizations in charge of labour justice in the world of labour in Mexico are the local and national Conciliation and Arbitration Courts. We expand more on their performance in Chapter 4.

During the 1980s, the 1990s, and the first decade of the 2000s, the Mexican labour markets did not have any changes in their institutions despite the enormous transformation that the structural reforms brought about and electoral democracy (Bayón *op. cit.*, 307). Nonetheless, after the openness of the economy, combined with the clientelist legacies of the Mexican state, the bargaining power of the private sector (national and international) grew so much that it escaped the control of the state, influencing the adjustment of the labour market institutions informally in their own interest without going through a formal process.<sup>40</sup> These groups have influenced the disappearance of social protection, bringing about high levels of labour informalization and economic insecurity, where the poor are the most affected.<sup>41</sup>

This is a paradox because the reach of Mexican labour legislation is quite wide since it includes every waged worker from both the formal and the informal sectors without the need for a formal contract (Bensusam 2006, 321). Moreover, Articles 35, 36 and 37 of the Federal Labour Law establish that all labour relations, except for those covered by temporary contracts and contracts for a specified job, are indefinite and even despite the fact that there is no written contract, the workers should still receive the same rights because the responsibility for the lack of a formal contract lies with the employer and not the employee. However, due to the weak enforcement of the labour regulations, not

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<sup>40</sup> Bensusam noted, for example, that considering the scope of legal protection and the cost of dismissal, Mexico has a more rigid labour market institutional framework in comparison with countries such as Argentina, Brazil, or Chile. However, it is the country where labour conditions have stalled the most since it has the longest working hours, shortest holidays, shortest maternity leave and the smallest end of year bonus, and it is the least effective country in terms of law enforcement in the world of labour (2008, 36).

<sup>41</sup> Fernández argued that the three main domestic groups that played an important role in the 1980s for the liberalization of the economy were the Carso group, whose president is Carlos Slim the richest man in the world, the Salinas group and the Zambrano group (2000, 97).

complying with labour regulations in Mexico implies a low cost, which has been utilized by the private sector not only to avoid investing in organizing labour but they have also pushed the shrinking of unions in order to have leeway to adjust the labour market to their benefit since unions are the only force that could counterbalance the power of the private sector in relation to the workers' rights and working conditions.

Labour inspection, for instance, is not properly coordinated between federal and state or local governments. The Federal Labour Inspectorate covers the whole monitoring of all labour regulations in the industrial branches indicated by Article 527 of the LFT and Article 123 of the Mexican Constitution.<sup>42</sup> As for the health and safety conditions at work and training, the federal level is in charge of the inspections in these branches of all the companies that perform work in federal areas such as in territorial waters or those placed in the exclusive economic zone of the Nation, whereas the states are in charge of inspecting and monitoring all the companies that are only in their jurisdiction. However, according to Bensusam, in 2006 only twelve states had agreements with the federal government (2006, 347). Moreover, there is a very small number of inspections per year, 0.8 per 1000 workers (Ruiz *op. cit.*, 180) and there is no responsibility on the employers to enroll or register workers in IMSS; on the contrary, it is IMSS that is in charge of checking that employers

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<sup>42</sup> Textile, electric, cinematographic, sugar, mining, rubber, metal and steel, hydrocarbons, petrochemicals, cement, lime; automotive including mechanical and electrical auto parts; chemistry, including pharmaceutical chemistry and medicine; cellulose and paper; vegetable oils and fats, production of packaged, canned or bottled food, production of bottled or canned beverages; railroad; basic timber, glass, and tobacco, banking and credit services whatever their location (Mexican Constitution art. 123; LFT art 527). Matters related to conflicts involving two or more states, collective agreements that had been made mandatory in more than one federal entity and employer obligations in education will also be the exclusive competence of federal authorities,.

formalize social security for their employees if the labour inspectors let them know and the inspection excludes the self-employed (Bensusam 2006, 354).<sup>43</sup>

### **2.4.2 Weak labour unions**

During the post-war period, the relationship between the government and the unions was always based on corporatist arrangements. In order to make sure that the state could control the formation and activities of the unions, it was established that unions needed authorization from the state to be established and that the employer could hire only those employees who belonged to the union that the company or firm chose to work with. Consequently, the most powerful unions were in key areas such as education, the oil industry and health care and their leaders frequently received benefits from their relationship with the government, such as seats in the government in exchange for electoral support. However, the unions had power to bargain with the firms and with the government since some of their members had access to high positions in the government and also because after 40 years of working with the government representing the interests of workers they had built collective capacities that allowed them to escape from the control of state officials.

The structural reforms of the 1980s reversed and worsened that situation. In order to attract international capital, the government offered cheap and controlled labour (Hathaway 2000, 10), bringing about a considerable decrease in union membership; the percentage of the workforce which was unionized went from just over 30% in 1984 to under 20% in 2000, and to 10% in

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<sup>43</sup> According to data obtained from the STyPS through IFAI requested between 2011 and 2012, there were only three advertisements of this kind in the whole country.

2009, and in the micro-enterprises it is practically non-existent (Ruiz *op. cit.*, 178), and the same corporatist practices of the past have been used to keep the few empowered unions left, such as the education union, under control. In consequence, the credibility of the government-allied unions has changed radically since unions are no longer capable of delivering customary benefits to their members, bringing about discrepancies between the main workers' organizations (Bensusam & Middlebrook 2012, 74). In this context, the private sector normally prefers to break or distort the law to reduce its labour costs since there are no unions strong enough to bargain with about any issue related to the workers, such as social security, training or the conditions for hiring and firing, which has brought about an increase in the levels of labour informalization, short job tenure and the perpetuation of low skill levels.

### **2.4.3 Short job tenure**

Due to the weakness of the unions and the failure of the state to enforce labour norms and regulations, labour mobility has relentlessly increased. Levy argued that in 2006 18.5 million economically active people remained in the same job for less than five years (2007, 7). Moreover, by June 2009 the number of formal full-time and temporary workers registered with the IMSS had declined by 596,200 compared with a year earlier (ILO 2010, 1). The ways in which the private sector takes advantage of the labour justice system in Mexico vary; enterprises such as Wal-Mart and Office Max, for instance, treat their employees as associates and not as employees in order to avoid paying taxes and contributions from which social security is normally financed (Ruiz 2009, 175).

However, the main gap that they have found is perhaps outsourcing, which is used to reduce costs and eliminate job duties but mainly to avoid distributing the share of the profits that workers deserve, which is something that is not clearly regulated by Mexican labour norms. There are two kinds of outsourcing: 1) labour outsourcing, where a company or firm that needs to have some work done resorts to an intermediary to hire workers to have it done;<sup>44</sup> and 2) outsourcing of goods and services, where a company or firm entrusts to another the provision of goods and services and the latter undertakes to carry out the work at its own risk, with its own financial, material and human resources (Ermida & Orsatti 2009a, 20).<sup>45</sup>

Mexican legislation 'covers' mild labour outsourcing but it does not cover goods and services outsourcing, which companies use to avoid distributing profit-sharing. The companies that outsource, normally big or medium sized companies, are forced to be fully responsible (Article 15 of the LSS) for the health and safety issues of the workers that the medium company utilizes, but all they do is to put a clause in the contract stating that the small company will register the personnel that the medium company uses to provide the service or good with IMSS (although this does not necessarily always happen), and with this formula they do not have any other duty to the employees of the medium or small company. Small companies, then, normally through an intermediary, outsource the personnel that they need to have the work done, hiring them on temporary contracts.

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<sup>44</sup> By 2009, labour outsourcing amounted to around 60% of the whole labour of the private sector (De la Garza 2011, 50).

<sup>45</sup> For instance, in 2004 Grupo Modelo, a beer firm, finished the collective contract of their workers of their factory in Zacatecas and opened a smaller company specifically to manufacture the bottles for the beer, signing a new agreement under which, instead of giving profit sharing, they were going to be giving bonuses and gratuities (Retama 2009, 115).

In addition, according to Bayón, since the minimum wage is only an instrument against inflation, from 1980 to 2000 it lost 70% of its purchasing power. This has also forced people to migrate to the United States looking for jobs with higher salaries and better working conditions. She found that 9.6 million Mexicans emigrated between 1990 and 2008; approximately 40,000 leave the country every year (*op. cit.*, 312). This context, on the one hand, disincentivizes workers from investing in acquiring specific skills since they are not certain whether they will keep their jobs in the long run. On the other hand, it also impedes them from organizing labour since workers stay in their posts for very short periods of time.

#### **2.4.4 Low skill levels**

We have already discussed in general the levels of education in Mexico and specifically the low level of education of the recipients under the *Oportunidades* programme, which is directly related to the weak fiscal capacity of the Mexican state. What we want to argue in this section is that since the late 1990s, with the implementation of the CCTs and the signing of NAFTA, more than 50% of the employment in Mexico has been generated in the goods and service sector (see Tables 2.6 and 2.7). According to Bayón, most of the employment growth has been in micro-enterprises, self-employment and domestic employment in urban areas (*op. cit.*, 310), where one of the main issues is not only the lack of social protection, but also the low wages. Moreover, not only does this sector have a significant level of informality as argued above, but also the informality is reinforced since due to their low skills workers are easily replaceable, discouraging both employers and employees



from investing in organizing unions and/or upgrading their skills levels. Furthermore, the rigid structure of the Mexican labour market creates even more difficulties in climbing the social strata ladder, especially to the highest stratum constituted by professionals (Escobar & González 2008, 43), since informality is promoted legally.

**Table 2.7 Employment per sector in Mexico**

Year	Total employment	Agriculture %	Industry %	Services %
1988	28 128.0	23.5	26.5	49.0
1990	23 403.4	22.6	27.8	46.1
1991	30 534.1	26.8	23.1	49.5
1993	32 832.7	26.9	22.0	50.4
1995	32 652.2	23.8	21.5	54.2
1996	33 968.6	22.2	22.5	54.8
1997	35 924.8	23.7	22.3	53.6
1998	36 871.7	19.6	24.7	55.3
1999	37 279.9	20.5	25.4	53.6
2000	38 044.5	17.6	26.9	55.1
2001	38 065.8	17.6	26.0	56.1
2002	38 939.7	17.5	24.9	57.3
2003	39 221.5	16.3	25.0	58.4
2004	40 561.0	15.9	24.8	58.9
2005	40 791.8	14.9	25.7	58.9
2006	42 197.8	14.3	25.8	59.2
2007	42 906.7	13.5	25.9	59.9
2008	43 866.7	13.1	25.7	60.4
2009	43 678.1	13.3	23.9	62.1

Source: INEGI: <http://www.inegi.org.mx>. Accessed: January 2011.

#### **2.4.5 Informal sector**

According to Maloney, the informal sector in Latin America is the analogue of the entrepreneurial small firm sector found in developed countries (2004, 1165). As a matter of fact, Canales and Nanda noted that SMEs represent more than 99% of all Mexican firms. They have accounted for more than 70% of all employment since 1993, and they generate more than 50% of GDP (*op. cit.*, 63). The difference is that in Latin America workers are forced to

work informally, relying on family networks to cover their social protection (Temkin *op. cit.*, 50), due to the circumstances that we reviewed in the previous sections.

Ruiz has pointed out that in recent years there has been an increase in public employment services, training, employment incentives, direct job creation, micro enterprises and so on; however, the spending in this area represents barely 0.03% of GDP, and almost half of the spending is directed towards information for people to find jobs rather than emphasizing training to acquire new skills in order to be incorporated into the labour market (*op. cit.*, 183). There are programmes such as the First-Job programme,<sup>46</sup> whose main goal is to create permanent and well-paid jobs, working alongside small and medium-sized enterprises and freeing them from the obligatory payments that they have to make when registering workers with IMSS. However, the main issue that these programmes present is that they are directed towards lowering unemployment rather than to formalizing employment, so they affect only a very small proportion of the active economic population (*ibid.*, 189). Moreover, due to the lack of contract enforcement, banks are reluctant to offer credit for firms and households, or loans on residential property (Haber *et al. op. cit.*, 120).

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<sup>46</sup> See <http://boletin-infomail.typepad.com/DocumentosVarios/ISR-PrimerEmpleo-2.pdf> for a detailed description of the programme. Accessed July 2011.

**Table 2.8 Informal employment in Mexico per decade**

Year	Total Employment	Informal employment
1981	22,349,735	13,237,522
1990	30,138,290	16,443,604
2000	38,044,501	26,250,670
2010	44, 651, 852	26, 291, 302

Source: INEGI: <http://www.inegi.org.mx>. Accessed: September 2010.

In this context, Levy claimed that direct assistance programmes such as *Oportunidades* could act as an incentive to work informally since, trying to maximize their gains, people would prefer to stay in the informal sector, where they are independent and have help from the government, which limits economic growth (2007, 30). However, we agree with Escobar and González, who argued that this view could be mistaken because the cost of informal social protection could be higher and because relatives are not always in a position to help their family. They found that those workers who leave the formal sector in order to set up a business in the informal sector to achieve independence or for financial reasons even keep paying a fee to the IMSS or ISSSTE in order to guarantee their access to a pension (2008, 39). Moreover, if we were to say that direct assistance hampers productivity, then any kind of assistance from the government would be harmful too, and the lesson that we have learned reviewing the Latin American case is that the lack of direct assistance has been more harmful, especially for the poor.

The point on which both Levy (2007) and Escobar and González (2008) agree is that if productivity and employment are not raised, perverse incentives might be created, impeding economic growth. Cárdenas claimed that what

informal firms lack is help to upgrade their production (*op. cit.*, 278), which also decreases tax collection and with this the assistance that can be provided to the poor. Furthermore, Moreno-Brid *et al.* argued that Mexico's growth strategy "has failed to create the number of jobs required by the labour force estimated at between 800,000 and one million per year" (*op. cit.*, 155) and according to Peralta, the average annual generation of necessary jobs for 2008-2030 is 641,500 per year, and even if GDP grows at 7%, it will not be possible to abolish unemployment until 2030 (2004, 1460).

**Table 2.9 Employment in Mexico 2011**

Total Population		Economically active population			Employed	Informal	Unemployed	
113 211 011		47 911 345			45 430 178	29 228 572	2 481 167	
<b>URBAN AREAS</b>								
Economically Active population				Employment per sector			Informal	Unemployed
Employed	Workers	Employers	Self-employed	Agriculture	Industry	Service Sector	12 121 538	1 491 367
23 140 927	17 101 871	1 070 923	4 221 508	156 265	5 593 883	17 186 980		
<b>SEMI-URBAN</b>								
Economically Active population				Employment per sector			Informal	Unemployed
Employed	Workers	Employers	Self-employed	Agriculture	Industry	Service Sector	9 230 382	655 211
13 091 168	8 500 045	670 786	3 036 502	1 559 554	3 424 349	8 064 911		
<b>RURAL</b>								
Economically Active population				Employment per sector			Informal	Unemployed
Employed	Workers	Employers	Self-employed	Agriculture	Industry	Service Sector	7 876 652	334 540
9 198 083	4 668 973	307 812	3 066 736	4 301 462	1 865 674	3 005 312		
Source: INEGI: <a href="http://www.inegi.org.mx">http://www.inegi.org.mx</a> . Accessed February 2011. Note: INEGI understands informal workers as those that lack access to social security services such as health insurance and pensions.								

## 2.5 Conclusions

We have seen that the modern Mexican state was born in 1917 with the intention of providing extensive social rights as a result of the complementation of economic and social strategies. However, the military dictatorships manipulated the social groups through corporatist and clientelist arrangements that perpetuated the socio-economic inequality inherited from colonial rule, bringing about weak institutional capacities of the state, which hampered the fulfillment of its functions. The crisis of the 1980s implanted the belief that what was needed to solve the institutional problems of the state was to reduce its size and implement a market-led development.

In this context, the Mexican state prioritized macroeconomic stability and the control of inflation, embarking on an export-growth strategy, and making deep cuts in public spending following the minimalistic view of a welfare system that serves only as a safety net where the market fails, bringing about the exacerbation of socio-economic inequalities and poverty. In recent years, social spending has been increased in order to alleviate these negative consequences. Paradoxically, however, the still weak institutional capacities of the Mexican state have not only brought about less employment protection but also they have impeded employment generation, in this way, constraining the alleviation of poverty.

CCTs are designed to enable poor children to attend schools and health centres, allowing them to increase their human capital so that they can obtain sustained income in the labour market in the mid and long-term. Research has confirmed that the programmes have had positive effects in different areas of

the well-being of the recipients. We have reviewed here some of these positive achievements in the educational component. However, as we have seen, most of the jobs offered in the Mexican labour market are not only low-qualified with poor salaries, but also have high levels of informality since they do not have access to union representation, stable contracts or training schemes and social protection is almost non-existent.

Consequently, with the conceptual framework that we presented in the first chapter and the analysis of the *Oportunidades* programme and the Mexican labour market in this chapter, we shall proceed now to outline the strategies that we shall use in order to uncover the extent to which the weakness of the institutional capacities of the Mexican state impedes the alleviation of poverty in Mexico. At the time of the writing of this thesis, the *Progres-a-Oportunidades* programme has been in operation for fourteen years. Consequently, we shall be able to observe clearly the impact that the programme has had on the recipients beyond the first evaluations, which focused on the impact of the programme on the well-being of the recipients (school attendance, nutritional improvements and so on). The main question that we shall try to answer in the analytical chapters of the thesis and that will guide the design of the empirical methods of research in our field work is: To what extent does the weakness of the institutional capacities of the Mexican state impede the *Oportunidades* programme from enabling the ex-recipients to obtain sustained income in the labour market that allows them to move out of poverty?

## CHAPTER 3

### METHODOLOGY

#### Introduction

The main objective of this thesis is to assess the role of the state in alleviating poverty, in a middle income country with high levels of socio-economic inequality, by expanding the capabilities of the poor so that they can obtain sustained income in the labour market that allows them to leave poverty, and the extent to which the weakness of its institutional capacities impedes it from fulfilling that role. In order to do that, we needed first to design a methodology that would allow us to get close to and examine our social phenomena, especially because at the time that we were carrying out our research, 2010-2012, there were few data sets that contained information about the linkages between the capabilities of the ex-recipients of the *Oportunidades* programme, the labour market and the institutional capacities of the state in Mexico. In this chapter, we shall explain the combination of research methods that we used in order to shed light on the extent to which the weakness of the institutional capacities of the Mexican state might be preventing the *Oportunidades* programme from enabling the ex-recipients to obtain sustained income in the labour market. The chapter is divided into four main sections. In the first section, we present the central research questions of our thesis. The second section presents our ontological and epistemological positions. In the third section, we introduce the research methods that we used. In the final section we present some final remarks.



### 3.1 Central research questions

The central question that we intend to answer in this research is: What is the role of the Mexican state in alleviating poverty and to what extent does the weakness of its institutional capacities impede it from fulfilling it? This question is composed of two interrelated parts. First, what is the role of the Mexican state in alleviating poverty under the logic of the *Oportunidades* programme? and second, to what extent does the weakness of the institutional capacities of the Mexican state impede the *Oportunidades* programme from enabling the ex-recipient to obtain sustained income in the labour market that allows them to move out of poverty?

So far, based on the theoretical and introductory chapters, we have answered the first part of our main question. In the empirical chapters we aim to answer the second part. As explained in Chapters 1 and 2, the institutional capacities that we examine are: 1. the regulatory-market capacity of the state, where we explore the capacity of the state to make the private sector comply with the law to protect workers' rights while fostering employment generation; and 2. the fiscal capacity of the state, where we explore the capacity of the state to use expenditure as a tool to equalize the socio-economic conditions of the citizenry and in this way justify greater tax collection. In this chapter, we present the methodology constructed to obtain the data that helped us to fully answer our main question.

### 3.2 Ontological and epistemological positions

According to Furlong and Marsh, social researchers' ontological and epistemological positions shape the approach to theory and methods which the social scientist uses and this is the reason why it is important to recognize them (2010, 184). The ontological position, on the one hand, reflects the researcher's view about the nature of the world, and whether or not there exists a real world independent of our knowledge of it (*ibid.*, 185), in other words, the way we understand how the social world fits together and how we make sense of it (Della Porta & Keating, 2008, 21). Epistemological positions, on the other hand, reflect the researcher's view about what we can know about the world (Furlong & Marsh, *op. cit.*, 185), the sources to know it and the reasons for it fitting together as it does (Della Porta & Keating *op. cit.*, 22).

We recognize that our ontological position is foundationalist since we believe that there is a world which exists independent of our knowledge (Furlong & Marsh, *op. cit.*, 190). That is, the relationship of social phenomena such as poverty and unemployment exists independent of our knowledge of them and by observing them causal associations can be made. Within the context of our research, we believe that the relationship between poverty, the labour market and the weakness of the institutional framework of the Mexican state exists independent of our knowledge of them and that causal statements can be obtained by observing them.

Our epistemological position, on the other hand, is post-positivist or realist since we seek to establish a causal relationship between social phenomena. However, unlike positivists, we believe that not all the social phenomena, and

the relationships between them, are directly observable, and what is observed may offer a false picture of the relationship of the social phenomena. Nonetheless, although we cannot observe the entire range of relationships between the social phenomena, if we posit their existence we approach the best possible explanation (*ibid*, 204).

In this sense, and in line with the realists or post-positivists, we believe that theory and experiment are not entirely separable and that our chosen theory will affect the facts that we focus on and how we interpret such facts (*ibid*, 205). Accordingly, we shall put emphasis on the particular and the local, and on the way in which factors may combine in different circumstances (Della Porta & Keating *op. cit.*, 24) to approach the best possible explanation. Additionally, we understand that those contextual effects can be partly explained through variation in institutional structures (*ibid*, 30), which is especially important for us since we are going to assess the relationship between the institutional capacities of the state, the labour market and poverty alleviation.

In brief, influenced by our foundationalist and realist positions, we have designed a methodology using a mix of quantitative and qualitative data collection methods, putting emphasis on the particular and the local in order to approach the best possible explanation of our studied phenomena. Moreover, the use of both quantitative and qualitative methods allowed us not only to triangulate the results but also the qualitative methods helped us to develop our quantitative method. We shall now explain in more detail the research methods used in this thesis.

### 3.3 Research methods

#### 3.3.1 Case study

It has been argued that once the research questions or hypotheses have been established, there follows one of the most important steps in any research, namely, how to build these alternative views on the question into an empirical study (Hancké 2010, 237-238). According to Yin, the method or strategy to follow depends in large part on the type of research question posed. He suggested that the more the questions seek to explain some present circumstance (for example, 'how' or 'why' some social phenomenon works), in which the researcher does not require or does not have control of behavioural events, the more the *case study method* will be relevant to the research (2009, 4).

A case study is therefore normally used to explain a contemporary phenomenon (a student, a delinquent clique, a family group, a class, a school, a community, an event, or even an entire culture) in depth and within its real-life context, especially when the boundaries between the phenomenon and the context are not clearly evident (*ibid.*, 18). Bennett argued that there are three methods of within-case analysis: 1. process tracing, which focuses on whether the intervening variables between a hypothesized cause and observed effect move as predicted by the theories under investigation; 2. congruence testing, in which the researcher tests whether the predicted value of the dependent variable, in view of the values of the case's independent variables, is congruent with the actual outcome in the case; and 3. counterfactual analysis, in which we empirically try to test assertions such as whether 'x' in a specified case was

necessary for 'y' or if 'not-x' had occurred in the case, then 'not-y' would have occurred (2004, 30-33).

As argued above, our main interest is to assess empirically the extent to which the weakness of the institutional capacities of the Mexican state is a key cause that has impeded the *Oportunidades* programme from enabling ex-recipient recipients to obtain sustained income to move out of poverty. A congruence testing analysis would require us to have control of behavioural events and a process tracing or historical analysis normally does not focus on contemporary events. Therefore, the counterfactual case study method seemed to be the right path to follow. Consequently, we had to carefully choose the community and data collection techniques that would allow us to assess empirically the extent to which the weakness of the institutional capacities of the Mexican state is a key factor that can impede the alleviation of poverty.

### **3.3.1.1 Defining the community for our fieldwork**

As argued above, urban regions were going to work better to achieve our goals because due to the high levels of labour informality that exist in Mexico, the main concern of state policy regarding employment is that poor people have sustained income generation, which is the reason why the relationship with the capacities of the state regarding their opportunities in the labour market is more direct. Mexico is a Federal Republic, comprised of 31 states and a Federal District. In order to develop our fieldwork, we chose a state in the centre of Mexico called the State of Mexico (*Estado de México* in Spanish). Although *Oportunidades* is a Federal programme and the contribution of the state is minimal, it was very important to choose a state that allowed us to analyse a

context in which the levels of manufacturing and service sector employment were high, allowing the ex-recipients to have options regarding urban labour markets, to test both the programme's main goal and the capacities of the state.<sup>47</sup>

Accordingly, as we shall see next, the State of Mexico not only has these relevant characteristics, but also there is a high level of ex-recipients who had finished high school level, which allowed us to present a good example of the extent to which the weakness of the institutional capacities of the state impedes the alleviation of poverty in urban zones. We decided to interview only those ex-recipients who had completed high school while they were members of the programme and who were between eighteen and twenty three years old for six main reasons. First, during our fieldwork we were able to verify that high school is the minimum school level that can make the difference between obtaining a job with high or low levels of security in Mexico. Second, people normally finish high school when they are eighteen years old, which is also the minimum age required by employers to formalize employment. Third, since the *Oportunidades* programme covers only until high school level, interviewing only those ex-recipients who had finished high school gave us the opportunity to portray the best possible case linkage between the ex-recipients' capabilities, the labour market and the institutional capacities of the state. Fourth, according to the people of the local office of *Oportunidades*, the ex-recipients who had finished high school were more likely to be located and interviewed since those who drop out of school at lower levels of study normally emigrate either to another

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<sup>47</sup> The states only help the federal government to organize the *Vivir Mejor* fairs, which, as explained above, are fairs organized to let the ex-recipients know about the education opportunities that they have once they finish the high school level to encourage them to keep studying.

state or to the United States to look for better employment opportunities. Fifth, *Oportunidades* started to cover the high school level in urban zones in 2001, which would mean that the first cohort of recipients that attended high school from the first till the last semester graduated in 2004 - since in Mexico high school lasts three years - when most of them were around eighteen years old. In this sense, by the time we started our fieldwork in 2011, the first cohort of recipients that finished high school must have been around twenty-three years old. Sixth, it was important to have a short age range of our population in order to have a homogeneous one from which we could make generalizations from our findings about the ex-recipients of the *Oportunidades* programme of our selected region on safe methodological grounds.

Likewise, we also decided in our interviews to take into account those ex-recipients who were not working or unemployed but who were BA students for two main reasons. First, as explained above, since the *Oportunidades* programme started to cover the high school level in urban areas in 2001, by the time that we undertook our fieldwork it was going to be difficult to find a significant number of ex-recipients who had finished a BA to interview about their experiences in the labour market. However, the fact that they were students did not mean that they did not have working experience since they could have worked before or could be studying and working at the same time. Second, most importantly, as previously explained, in recent decades the difference in the levels of education between the rich and the poor has been widened because the provision of basic education – primary and secondary levels – became the priority of the government before the disappointing results of the structural reforms introduced in the early 1980s, allowing the private

sector to have a bigger role in the provision of this service at high school and at university levels. In the light of this, another important point that we wanted to uncover by interviewing BA students was the extent to which the poor are limited in advancing to this educational level, which, as argued above, can also make an important difference between obtaining a job with high or low levels of security especially in urban zones, and their perceptions about the possible reasons behind it in relation to the weakness of the institutional capacities of the state.



**Table 3.1 Employed population in Mexico 2010**

No	STATE	Total population 112 336 538 (millions)	Employed population 45,361,833 (millions)	% Employed population	Primary Sector 6,526,470 (millions)	14.40 % Population in primary sector	Secondary Sector 10,762,960 (millions)	23.72 % Population in secondary sector	Tertiary sector 27,775,236 (millions)	61.23% Population in tertiary sector	Not specified 297,167	0.65% Population not specified
1	AGUASCALIENTES	1,184,996	455,665	38.45	27,960	6.13	135,933	29.83	290,792	63.81	980	0.21
2	BAJA CALIFORNIA	3,155,070	1,315,190	41.68	87,720	6.66	333,594	25.36	811,010	61.66	82,866	6.30
3	BAJA CALIFORNIA SUR	637,026	286,735	45.01	25,352	8.84	57,339	19.99	203,270	70.89	774	0.26
4	CAMPECHE	822,441	357,290	43.44	75,817	21.22	73,103	20.46	206,782	57.87	1,588	0.44
5	COAHUILA	2,748,391	1,086,885	39.54	63,931	5.88	339,876	31.27	678,477	62.42	4,601	0.42
6	COLIMA	650,555	299,392	46.02	33,143	11.07	56,235	18.78	208,000	69.47	2,014	0.67
7	CHIAPAS	4,796,580	1,757,083	36.63	710,152	40.41	234,871	13.36	805,629	45.85	6,431	0.36
8	CHIHUAHUA	3,406,465	1,231,832	36.16	146,273	11.87	353,954	28.73	685,415	55.64	46,190	3.74
9	DISTRITO FEDERAL	8,851,080	3,895,132	44.00	8,629	0.22	687,973	17.66	3,184,809	81.76	13,721	0.35
10	DURANGO	1,632,934	604,343	37.00	101,431	16.78	152,073	25.16	348,861	57.72	1,978	0.32
11	GUANAJUATO	5,486,372	2,135,837	38.92	221,413	10.36	682,179	31.93	1,225,589	57.38	6,656	0.31
12	GUERRERO	3,388,768	1,392,115	41.08	498,866	35.83	185,569	13.33	706,062	50.71	1,618	0.11
13	HIDALGO	2,665,018	1,044,484	39.19	211,076	20.20	288,275	27.59	542,724	51.96	2,409	0.23
14	JALISCO	7,350,682	3,176,488	43.21	344,189	10.83	805,552	25.35	2,014,310	63.41	12,437	0.39
15	MÉXICO	15,175,862	6,022,626	39.68	325,303	5.40	1,615,174	26.81	4,065,979	67.51	16,170	0.26
16	MICHOACÁN	4,351,037	1,651,393	37.95	368,450	22.31	358,077	21.68	923,338	55.91	1,528	0.09
17	MORELOS	1,777,227	744,158	41.87	90,738	12.19	167,948	22.56	483,295	64.94	2,177	0.29
18	NAYARIT	1,084,979	484,881	44.69	103,888	21.42	81,514	16.81	297,096	61.27	2,383	0.49
19	NUEVO LEÓN	4,653,458	2,081,613	44.73	54,231	2.60	632,711	30.39	1,390,538	66.80	4,133	0.19
20	OAXACA	3,801,962	1,542,971	40.58	540,048	35.00	288,511	18.69	712,092	46.15	2,320	0.15
21	PUEBLA	5,779,829	2,317,595	40.09	557,343	24.04	582,673	25.14	1,171,265	50.53	6,314	0.27
22	QUERÉTARO	1,827,937	674,813	36.91	45,853	6.79	221,453	32.81	406,458	60.23	1,049	0.15
23	QUINTANA ROO	1,325,578	649,670	49.01	41,181	6.33	89,021	13.70	516,267	79.46	3,201	0.49
24	SAN LUIS POTOSÍ	2,585,518	1,000,471	38.69	208,443	20.83	240,415	24.03	544,413	54.41	7,200	0.71
25	SINALOA	2,767,761	1,174,580	42.43	227,851	19.39	192,247	16.36	748,278	63.70	6,204	0.52
26	SONORA	2,662,480	1,038,221	38.99	118,674	11.43	288,362	27.77	610,962	58.84	20,223	1.94
27	TABASCO	2,238,603	827,512	36.96	141,329	17.07	173,376	20.95	507,135	61.28	5,672	0.68
28	TAMAULIPAS	3,268,554	1,314,148	40.20	94,971	7.22	382,876	29.13	817,589	62.21	18,712	1.42
29	TLAXCALA	1,169,936	449,975	38.46	72,519	16.11	146,201	32.49	229,755	51.05	1,500	0.33
30	VERACRUZ	7,643,194	2,895,396	37.88	711,367	24.56	566,544	19.56	1,608,800	55.56	8,685	0.29
31	YUCATÁN	1,955,577	873,140	44.64	95,564	10.94	242,728	27.79	532,526	60.98	2,322	0.26
32	ZACATECAS	1,490,668	580,199	38.92	172,765	29.77	106,603	18.37	297,720	51.31	3,111	0.53

Source: INEGI: <http://www.inegi.org.mx>. Accessed: September 2010.

Table 3.1 shows the percentages of the employed population in the different economic sectors in each one of the 31 states and the Federal District in Mexico in 2010. The State of Mexico is not only one of the states with the highest percentage of population in the service sector, but it also has one of the lowest percentages of population in the primary sector.<sup>48</sup> However, to be sure that we were taking the right decision, we also contrasted and compared levels of industrialization and the share of ex-recipients who started and had potentially finished high school.

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<sup>48</sup> The Federal District was rejected from the beginning despite the fact that it is a very important urban zone because it has a different political organization to that of the states and we considered it important to develop our fieldwork at the state level in order to present a broader picture of the extent to which the institutional weakness of the state impedes the alleviation of poverty, which could serve as an example to the other 30 states.

**Table 3.2 Manufacturing sector in every Mexican state 2010**

State	Economic Units	Total income from goods and services' supply (pesos)	Total gross output (Pesos)
AGUASCALIENTES	4,174	90,854,905	89,680,880
BAJA CALIFORNIA	5,993	137,492,713	137,047,964
BAJA CALIFORNIA SUR	2,012	4,296,997	4,241,646
CAMPECHE	3,405	3,788,079	3,707,355
COAHUILA	7,889	340,886,821	334,949,879
COLIMA	2,523	6,861,432	6,896,285
CHIAPAS	13,726	80,573,936	83,383,988
CHIHUAHUA	8,014	136,309,453	134,081,623
DISTRITO FEDERAL	30,934	386,057,855	373,185,885
DURANGO	4,858	43,499,907	43,352,534
GUANAJUATO	23,112	303,051,012	301,311,903
GUERRERO	23,272	7,271,600	7,284,328
HIDALGO	9,735	182,283,978	181,534,815
JALISCO	29,991	313,138,012	299,987,674
MÉXICO	48,357	608,312,239	586,763,338
MICHOACÁN	27,692	84,168,014	83,214,904
MORELOS	8,212	54,524,910	53,386,718
NAYARIT	3,567	6,812,993	6,648,208
NUEVO LEÓN	12,632	515,299,084	508,938,641
OAXACA	27,459	142,582,608	142,214,797
PUEBLA	36,526	232,762,813	222,856,454
QUERÉTARO	5,924	156,734,307	152,493,003
QUINTANA ROO	2,802	8,421,292	8,197,113
SAN LUIS POTOSÍ	8,113	133,584,586	130,270,145
SINALOA	8,171	35,895,637	35,553,567
SONORA	9,760	159,257,312	158,762,593
TABASCO	4,577	104,732,312	109,312,323
TAMAULIPAS	8,381	237,434,648	234,445,131
TLAXCALA	7,959	42,281,661	42,752,329
VERACRUZ	23,669	345,959,654	340,486,095
YUCATÁN	18,442	36,159,557	35,586,641
ZACATECAS	4,970	24,622,051	24,470,496

Source: INEGI: <http://www.inegi.org.mx>. Accessed: September 2010.

Table 3.2 shows three variables, the number of economic units, the total income from the supply of goods and services, and the total gross output in the manufacturing sector in every state in Mexico. As we can observe, the State of Mexico's figures are higher than those of every other state in each one of the three variables. There are more economic units, which means that there is more business and industrial variety than in any other state, and it is the state with more total income from the supply of goods and services and more total gross

output. Remarkably, Nuevo León is one of the states with very few economic units but is, after the State of Mexico, the state with more total income from goods and services' supply and more total gross output because some of the main branches of the main large companies are located there. However, the combination of a large population working in the service sector and a great variety of business in the State of Mexico was more appealing for our purposes since this meant that there were more middle-sized and small companies, which are the ones that offer most of the employment in Mexico.

As we saw in Chapter 2, the operation of the programme is conditional on the existence of education and health services in the state and municipalities prior to the operation of the programme. Consequently, it was also important for us to conduct our fieldwork in a state where there were the best possible conditions to fulfill the programme's goals. Therefore, from the *Oportunidades*' National Coordination, through IFAI, we requested the number of *Oportunidades*' ex-recipients who had started high school and the number of those who had advanced to the last year of high school since the beginning of the programme in every Mexican state.<sup>49</sup>

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<sup>49</sup> We requested information about those who had advanced to the last year of high school and not about those who finished high school because according to the people of the local and federal offices of the *Oportunidades* programme there is no exact way for them to know the number of recipients who actually finish high school and those who quit in the final year because not all of them attend the office to deliver their final certificate of high school, despite the fact that they receive a final payment of around 205 pounds sterling if they do so.

**Table 3.3 Recipients who finished high school 2001-2011**

No	State	Total recipients enrolled in high school 2001-2002 – 2010 - 2011	Recipients enrolled in the last year 2001-2011	% Recipients enrolled in the last year 2001-2011
1	AGUASCALIENTES	45,323	8,011	17.67
2	BAJA CALIFORNIA	30,588	4,755	15.54
3	BAJA CALIFORNIA SUR	18,335	3,190	17.39
4	CAMPECHE	101,762	20,337	19.98
5	COAHUILA	58,406	9,239	15.81
6	COLIMA	21,783	3,878	17.80
7	CHIAPAS	803,441	166,285	20.69
8	CHIHUAHUA	72,196	13,322	18.45
9	DISTRITO FEDERAL	19,936	3,635	18.23
10	DURANGO	91,784	16,186	17.63
11	GUANAJUATO	271,578	49,166	18.10
12	GUERRERO	492,585	99,146	20.12
13	HIDALGO	308,377	60,820	19.72
14	JALISCO	171,867	33,038	19.22
15	MÉXICO	496,225	94,828	19.10
16	MICHOACÁN	323,098	57,487	17.79
17	MORELOS	126,314	23,147	18.32
18	NAYARIT	88,930	16,602	18.66
19	NUEVO LEÓN	44,381	6,706	15.11
20	OAXACA	606,783	122,953	20.26
21	PUEBLA	661,870	142,504	21.53
22	QUERÉTARO	86,035	17,391	20.21
23	QUINTANA ROO	90,264	17,470	19.35
24	SAN LUIS POTOSÍ	297,612	56,156	18.86
25	SINALOA	262,755	53,324	20.29
26	SONORA	111,148	21,312	19.17
27	TABASCO	338,337	71,599	21.16
28	TAMAULIPAS	131,222	25,177	19.18
29	TLAXCALA	91,977	17,058	18.54
30	VERACRUZ	990,820	212,557	21.45
31	YUCATÁN	186,401	37,440	20.08
32	ZACATECAS	132,092	25,228	19.09
TOTAL		7,574,225	1,509,947	19.93

Source: Data obtained from the National Coordination of *Oportunidades* through IFAI requested in 2011.

Table 3.3 shows the percentage of recipients who started and advanced to the final year of high school education. As we can observe, on average in most of the states only about one out of five of the recipients who start high school advance to the final year. In comparison with other urban regions, where it is either slightly higher or lower, the State of Mexico, with 19.10%, is fairly

representative. The decision was then taken that the State of Mexico was going to be part of our case study, where we were going to find the necessary conditions to present a good example of the extent to which the weakness of the institutional capacities of the state impedes the achievement of the main goal of *Oportunidades* in urban zones. That is, there is: 1. a labour market with a large service sector where capability expansion, especially of those at the bottom of the hierarchical socio-economic structure, is needed the most to obtain sustained income; 2. a large variety of small, medium and large business; and 3. a representative percentage of ex-recipients of the *Oportunidades* programme who could have potentially completed the high school level.

Nonetheless, we recognize that the characteristics of the urban zones of the State of Mexico are far from being a representative sample of the characteristics of all the urban zones of Mexico. For instance, as previously explained, more than 80% of the foreign direct investment is concentrated in Mexico City, the State of Mexico, Nuevo León, Baja California and Chihuahua and this is the reason why their industrial sectors are larger than the industrial sectors of other important urban zones such as Puebla or Jalisco, which have had to rely more on encouraging the growth of the service sector to generate employment.<sup>50</sup> Moreover, as shown above, Nuevo León, in the northern part of the country, is one of the states with very few economic units but it is one of the states with a greater total gross output because most of the industries located there are national and international MNCs, so the demand for labour there might be different from that in the State of Mexico where the industrial sector

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<sup>50</sup> See also INEGI: <http://www.inegi.org.mx>. Accessed: January 2014.

relies more on the manufacturing of products by small and medium enterprises (Kuznetsov & Dahlman *op. cit.*, 42). Furthermore, as far as the service sector is concerned, in the State of Mexico, Baja California, Chihuahua, Jalisco and Puebla the main activities are those related to the wholesale and retail trade and hosting and restaurant services, whereas in Nuevo León and Mexico City the main activities are those related to financial services.<sup>51</sup> However, as explained above, although the State of Mexico is far from being representative of all the urban regions of the country, it provides us with important conditions to present a good example of the extent to which the weakness of the institutional capacities of the state impedes the achievement of the main goal of *Oportunidades* in urban zones.

We next had to choose the specific municipality, which was very important for our research, since although *Oportunidades* is a federal-level programme, the labour market institutions of municipalities can have a very significant influence over the labour opportunities of the recipients and the outcomes of the anti-poverty policies. This is because municipalities are also in charge of levying some taxes and granting permits for starting up small businesses and, constitutionally, they have freedom in the use of their own economic resources. Moreover, they are considered to be the basic cell of the Mexican political system since they are the level of government that is closest to the citizens. Consequently, the study of this level was going to allow us not only to assess the taxation capacity of the state but also the strategic use of revenues to generate and foster employment generation. At first, we wanted to choose two municipalities with similar characteristics in order to compare the

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<sup>51</sup> See SE: Ministry of Economy: <http://www.se.gob.mx>. Accessed: January 2014.

way in which the weakness of its institutional capacities impedes the ex- recipients from obtaining sustained income in the labour market. However, due to time constraints, we decided to choose only one municipality, which allowed us to present the best possible scenario so that the programme worked.

**Table 3.4 Most populated urban municipalities of the State of Mexico 2010**

Municipality	Population	Employed population	Primary sector	Secondary or industrial sector	Tertiary sector		Not specified
					Goods and Services	Business	
STATE OF MEXICO	15,175,862	5,899,987	301,136	1,512,176	1,311,796	2,677,560	97,319
CHIMALHUACÁN	614,453	225,235	1,022	62,677	61,328	98,224	1,984
CUAUTITLÁN IZCALLI	511,675	217,068	689	53,407	50,832	107,641	4,499
ECATEPEC	1,656,107	678,179	1,133	159,084	171,887	331,470	14,605
NAUCALPAN	833,779	344,374	1,351	80,759	71,189	178,056	13,019
NEZAHUALCÓYOTL	1,110,565	462,940	10,967	88,576	119,252	237,925	6,220
TLALNEPANTLA	664,225	270,436	206	60,575	63,572	137,978	8,105
TOLUCA	819,561	333,071	4,106	90,335	65,278	171,077	2,275
TULTITLÁN	524,074	220,008	770	57,314	53,220	104,980	3,724

Source: INEGI: <http://www.inegi.org.mx>. Accessed: September 2010.

Table 3.4 presents the total and employed population in the main urban and most-populated municipalities of the State of Mexico (those of more than 500,000 inhabitants).<sup>52</sup> As we can observe, most of the population in these municipalities is concentrated in the secondary and tertiary or service sector.

<sup>52</sup> In Mexico municipalities are divided into localities; most of the governmental institutions, such as the National Council of Population (CONAPO for its acronym in Spanish), INEGI and academic studies consider as urban localities those which have more than 15,000 inhabitants, semi-urban localities those with fewer than 15,000 but more than 2,500 inhabitants and rural localities are those that have fewer than 2,500 inhabitants.



The most-populated, and with more population in these sectors, are Ecatepec and Netzahualcóyotl. However, we decided to choose Toluca since it is the capital of the State of Mexico, where the local executive, legislative and judicial powers reside (of both state and municipality), which gave us a sense of unity at the local level, allowing us to show the extent to which the weakness of the institutional capacities of the state impedes the achievement of the main goal of the *Oportunidades* programme. Furthermore, at the same time we were going to be able to assess and differentiate the extent to which the capacities of each level shape the labour market, increasing informality and in consequence impeding poverty alleviation.

We also requested from the *Oportunidades*' National Coordination, through IFAI, the number of ex-recipients who had started and advanced to the final year of high school in every one of the 125 municipalities of the State of Mexico and contrasted this information with the population of every municipality and population working in the different economic sectors. Table 3.5 shows the number of ex-recipients who could have potentially finished high school in the 30 municipalities which had more ex-recipients since 2001, when the *Oportunidades* programme started to cover the high school level. The municipalities with more ex-recipients were Acambay, Almoloya de Juárez, Atlacomulco, Chimalhuacán, Ixtlahuaca, Jilotepec, Jiquipilco, San Felipe del Progreso, Temascalcingo, Temoaya and Toluca. However, out of all of them, Toluca was the municipality with more potential ex-recipients who could have finished high school (4,176) in urban zones, which allowed us to obtain a sufficiently large sample to make more reliable generalizations from our findings about the ex-recipients of the *Oportunidades* programme of our selected region.

The only municipality that had more potential ex-recipients who could have finished high school than Toluca was Ixtlahuaca (4,598). However, according to INEGI, by 2010 most of the localities of Ixtlahuaca were considered to be semi-urban or rural and, as explained before, our focus is on poverty in urban zones, and that is the reason why it was discarded. Additionally, Toluca also has the biggest supply of public universities in comparison with most of the urban municipalities of the State of Mexico, where the number is very limited or there are no universities at all and people are forced either to change their residence or to travel long distances every day to be able to attend a public university or to pay for a private university.<sup>53</sup> So, Toluca also provided us with important conditions to uncover the extent to which the ex-recipients are limited in advancing to this educational level even in such a favourable context in relation to the weakness of the institutional capacities of the state. In sum, in Toluca we found a high number of ex-recipients who had finished the high school level, a high level of industrialization and a large number of people working in the service sector, especially in small businesses, and there was the presence of the state in its three levels of government. If the programme worked, it should be there.

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<sup>53</sup> According to data obtained from the Ministry of Education of the State of Mexico requested through INFOEM, by 2010 only 67 out of the 125 municipalities in the State of Mexico had at least one public school that offered BA studies. The students of the other municipalities had either to travel every day, to move to another municipality to be able to attend a university (if they were admitted) or to pay for a private university. Out of the 67 municipalities where there were public universities, only four had more than 10,000 students: Naucalpan, with 23,604 students in five public schools; Nezahualc6yotl, with 23,737 students in twelve public schools; Tlalnepantla, with 16,496 in five public schools; and Toluca, with 26,653 students in 56 public schools.

**Table 3.5 Recipients enrolled in the last year of high-school in the State of Mexico**

Municipality		Year									Total	
		2001 - 2002	2002 - 2003	2003 - 2004	2004 - 2005	2005 - 2006	2006 - 2007	2007 - 2008	2008 - 2009	2009 - 2010		2010 - 2011
1	ACAMBAY	109	194	273	280	271	344	317	383	347	345	2,863
2	ACULCO	48	63	137	142	164	158	159	197	192	193	1,453
3	ALMOLOYA DE JUÁREZ	110	157	198	278	345	346	368	433	381	391	3,007
4	AMATEPEC	41	66	86	111	123	122	145	127	123	113	1,057
5	ATLACOMULCO	127	181	210	266	295	316	335	372	366	367	2,835
6	CHAPA DE MOTA	52	61	116	109	123	142	128	142	112	100	1,085
7	CHIMALHUACÁN				124	220	320	486	502	608	721	2,981
8	DONATO GUERRA	42	67	133	112	160	146	152	166	123	150	1,251
9	ECATEPEC				23	67	135	154	229	430	601	1,639
10	IXTLAHUACA	185	253	359	482	563	569	655	559	449	524	4,598
11	JILOTEPEC	84	159	240	220	246	286	299	312	310	333	2,489
12	JIQUIPILCO	138	166	256	326	310	372	350	391	329	312	2,950
13	JOCOTILÁN	41	45	87	114	148	152	170	180	186	181	1,304
14	MORELOS	38	67	99	79	136	67	138	125	153	155	1,057
15	NAUCALPAN		-		28	56	79	145	196	296	384	1,184
16	EL ORO	44	90	158	149	160	131	128	162	186	154	1,362
17	OTZOLOTEPEC	9	19	40	68	95	88	133	173	195	194	1,014
18	SAN FELIPE DEL PROGRESO	149	253	368	374	391	458	488	557	530	530	4,098
19	TEJUPILCO	38	52	76	118	130	160	149	186	141	158	1,208
20	TEMASCALINGO	103	154	240	287	285	256	301	257	323	315	2,521
21	TEMASCALTEPEC	24	60	123	100	111	112	136	144	143	138	1,091
22	TEMOAYA	55	60	137	214	206	252	280	334	261	304	2,103
23	TENANCINGO	45	50	77	72	125	120	148	189	186	219	1,231
24	TLATLAYA	65	114	146	215	214	215	221	186	197	194	1,767
25	TOLUCA	45	89	224	308	422	465	547	636	692	748	4,176
26	VILLA ALLENDE	38	66	85	112	105	123	151	145	141	117	1,083
27	VILLA DEL CARBÓN	43	61	129	104	122	132	171	166	133	183	1,244
28	VILLA VICTORIA	53	79	168	145	157	165	178	197	162	189	1,493
29	ZINACANTEPEC	15	43	74	110	134	156	192	240	283	299	1,546
30	SAN JOSÉ DEL RINCÓN	54	84	105	134	148	139	173	198	207	239	1,481

Source: Data obtained from the National Coordination of *Oportunidades* through IFAI requested in 2012.

### 3.3.2 Data collection techniques

As mentioned above, based on our ontological and epistemological positions we used a mixture of quantitative and qualitative methods in order to approach the best possible explanation to our problem. It has been recognized that there are three main data collection techniques for empirical research: survey or questionnaire (quantitative), qualitative interviews and data analysis from secondary resources (Denscombe 1998, 83). According to Brannen, the purposes of combining them depends on “the phase of the research in which the researcher brings the different data sets into play” (2005, 178). Greene *et al.* identified five main justifications in that regard: 1. triangulation: the aim of which is to allow the researcher to look at social problems from different angles, thus gaining a better perspective on the studied object and increasing the accuracy of the results of the research; 2. complementarity: in which the interest is in clarifying the results obtained from one method with the results from another; 3. development: where the researcher seeks to use the results from one method to help develop or inform the other method, where development is broadly construed as including sampling and implementation, as well as measurement decisions; 4. initiation: in which both methods are contrasted in order to find a paradox or a contradiction; and 5. expansion: in which the researcher seeks to extend the breadth and range of enquiry by using different methods for different inquiry components (1989, 259).

For the purposes of our research we combined qualitative and quantitative methods for three main reasons: 1. development: the use of qualitative interviews and data analysis from secondary resources helped us to develop our questionnaire and to build the sample to which we applied it; 2.

complementarity: the results obtained from one type of interview (either qualitative or quantitative) allowed us to clarify the results obtained from the other type; and 3. triangulation: the use of quantitative and qualitative interviews and data analysis from secondary resources helped us to look at our problem from different angles, in this way gaining a better perspective on the studied object and increasing the accuracy of the results of the research.

We shall now describe the data collection techniques that we used in our fieldwork research, explaining briefly the way in which they were used.

### **3.3.2.1 Documents**

Documentary analysis might be the most ancient kind of analysis since, as Matthews and Ross have argued, it has probably been around since writing was invented in about 4,000 BC. They described documents as “written records about people and things that are generated through the process of living” (2010, 277) and these can include not only books but also films, audiotapes and videos containing very different sorts of data such as numerical, historical, qualitative, personal information and interpretation, visual and audio material and so on. Moreover, they are socially constructed so they can tell us much more than what the actual information contains and they are very useful for triangulating data (Burns 2000, 278).

Denscombe has argued that documentary research can be both “an essential part of any investigation and a specific method of investigation which offers itself as an alternative to questionnaires, interviews or observation as a means for collecting data” (1998, 159). There have been different studies that

have focused entirely on the documents of the *Oportunidades* programme, especially on the many surveys which the Ministry of Social Development has carried out to monitor the programme (Levy 2007 and 2008). However, the main limitation of these surveys is that they do not contain extensive information about the linkages between the ex-recipients and the labour market since once the recipients are not given the cash grant anymore, either because they finish high school or drop out of school, there is no longer any kind of tracking of their occupational trajectory.

Nonetheless, we recognize that documentary research has been an essential part of our investigation. Since we started our research, we have been able to use several types of official documents provided by the Mexican Ministry of Social Development and evaluation reports from national and international organizations such as the International Food Policy Research Institute, the World Bank, the UNDP, the ILO, academicians and so on. In addition to these documents, during our fieldwork we had the opportunity to gather a great deal of information about the Mexican labour market institutions and policies that could have an impact on the labour opportunities of the ex-recipients as well. Furthermore, two very important tools in this regard were the websites of IFAI and INFOEM, through which we requested numerous documents and information that allowed to us to carry out our methodology such as the number of ex-recipients who had advanced to the final year of high school since the programme started to cover this educational level in 2001, and especially to triangulate our results, as we shall see in the following chapters.

### 3.3.2.2 Qualitative interviews

Interviews have been recognized as an important means of gathering people's and groups' opinions, experiences and characteristics by governments, market researchers and academics (Matthews & Ross *op. cit.*, 219). The key feature of an interview is that there is a direct contact between the interviewer and the participant, which provides a sense of reality (Burns *op. cit.*, 423). However, they can be conducted face to face, or at a distance via telephone or on the internet, and are normally of three types: *unstructured*, *semi-structured* and *surveys or questionnaires*.

The first two types are generally used as qualitative data collection techniques in which the interviewer participates actively using normally open-ended questions.<sup>54</sup> In an unstructured interview, the researcher focuses on a set of topics and allows the interviewee to express her/his ideas freely. In semi-structured interviews, the researcher focuses on a set of topics following a particular order either to explore or to understand people's behaviours, opinions, beliefs or perceptions about a particular problem(s). The third type, surveys or questionnaires, on the other hand, is generally used as a quantitative data collection technique in which each interviewee receives the same structured questions, normally with a set of options, and the role of the interviewer is limited to just asking the questions and writing down the responses, or simply guiding the interviewee through the questionnaire (Matthews & Ross *op. cit.*, 221). For the purposes of our research, we used

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<sup>54</sup> Although this is typically the way in which the three types of interviews are used, we recognize that unstructured and semi-structured interviews can also contain close-ended questions allowing for a quantitative dimension, and semi-structured interviews can contain open-ended questions allowing for a qualitative dimension too.

semi-structured interviews and a survey. We shall elaborate more on the survey later in this chapter. For now, we are going to focus only on the semi-structured interviews that we used in our fieldwork.

Once we had selected the state and the municipality where we would undertake our fieldwork, the second step was to use the qualitative technique known as a *focus group*. This technique utilizes non-representative samples of groups of individuals and takes an intuitive and subjective approach to data collection, in which open-ended questions are posed (Székely & Nateras 2005, 386). In a focus group, no statistical data is sought; instead an unstructured and direct dialogue to understand important issues of the research subject in detail is carried out (Neuman *op. cit.*, 459). However, although it is an unstructured dialogue, it needs to have clear criteria in terms of the selection of the participants so that this is done on sound methodological grounds. Accordingly, we interviewed one small group of ex-recipients (eight of them), consisting of young people who were between eighteen and twenty-three years old and who had already completed high school, in order to understand their lives and define the kind of questions we would like to ask about their perceptions and experiences of the constraints they face in obtaining sustained income in the labour market in relation to the institutional capacities of the state.

During the discussions, we used both comprehensive written notes and audio-tape recording in order to capture as much information as we could. Nonetheless, as Table 3.6 shows, the full names of the interviewees were not recorded in order to maintain their anonymity and because of this they felt relaxed and talked freely and openly. Moreover, we agreed to hold the



discussions in the house of one of them so that they were more comfortable and also because, in that way, we were able to have sufficient time for the discussions since the venue was closer to the homes of most of them.

**Table 3.6 The ex-recipients in the focus group**

<b>Name</b>	<b>Age</b>	<b>Education</b>	<b>Occupation</b>
Jorge	18	General Baccaureate	unemployed
María	19	Accounting technician	unemployed
Pedro	20	Administrative computer technician	unemployed
Ángeles	20	Accounting technician	unemployed
Juan	19	Administrative computer technician	unemployed
Luz	21	General Baccaureate	unemployed
Antonia	20	General Baccaureate	Family business (grocery)
Miguel	22	Accounting technician	Father's business (blacksmith)

Source: Author with information from our survey.

This preliminary interview allowed us not only to understand the lives of the ex-recipients but also put us in an excellent position to locate other relevant actors (in the government, the private sector and civil society) with whom we could also conduct qualitative semi-structured interviews in order to triangulate the findings from the focus groups and later the results from the survey. We undertook nineteen semi-structured interviews with important actors related to our object of study (see *appendix 1*). As far as the government was concerned, we interviewed people from the three levels of government of the Mexican state drawn from public servants in the offices of employment to the economy, tax, social development and so on. In the case of the private sector and civil society, we interviewed managers of different companies, heads of consultancies and small-scale manufacturers.

Despite the fact that we were fortunate to have most of the main offices of local governments, civil society and the private sector located in Toluca and we only needed to travel to Mexico City to interview people at the Federal level, the qualitative interviews took us a little more time than we had anticipated for two main reasons: 1. most of our interviewees held a high rank in their companies/organizations so we had to wait for them to agree to give us some time; and 2. despite the fact that we identified ourselves as research students, some of them were worried about the way in which we were going to use the information.

However, it was crucial to interview them in order to triangulate the beliefs, thoughts, ideas and opinions of the recipients and the other actors. In this sense, the previous experience that we had as a public servant and the connections that we had helped us both to obtain the interviews with the right individuals and to explain to them the way in which the information was going to be used so that they were more confident and shared their perceptions about our object of study freely. All these interviews were held in the respondent's place of work and on average they lasted around 90 minutes. We used both comprehensive written notes and audio-tape recording in order to capture as much information as we could. The structure of the interviews followed the same logic as the discussions that we described in Chapters 1 and 2 about the way in which the weakness of the institutional capacities of the state has shaped the labour market in a way that impedes the poor from obtaining a sustained income. In order to analyse the data obtained from these interviews, we transcribed and coded them in relation to our research questions. Once we

had completed the qualitative interviews we proceeded with the development of the questionnaire and the building of the sample to which we applied it.

### **3.3.2.3 Survey research or questionnaire**

This method is the most widely used social science data-gathering technique (Neuman *op. cit.*, 309). Its popularity comes from the fact that it enables researchers to make generalizations about a particular population without having to interview every member of it. The most typical example of the use of the questionnaire is the census which is carried out in almost every country to determine the main characteristics of the inhabitants. A questionnaire normally involves a list of structured and standardized questions. It can be either descriptive, with questions aimed at capturing factual data such as the attributes of a particular population (for example, its demographic composition), or explanatory, with questions about people's experiences, perceptions, values or opinions, designed to seek to establish cause and effect relationships (Burns *op. cit.*, 566). We designed a questionnaire of 32 questions, which took 30-40 minutes to complete (*see appendix 2*). Most of the questions were of the closed-ended type with three or four options for the ex-recipients to choose from. Nonetheless, we still left room for the recipients to write down a different option from the ones that we provided in order to avoid limiting the interviewees to our answers.

We arrived in Toluca in the middle of November 2011 and remained there throughout the period of the fieldwork. The main constraint that we faced in approaching the ex-recipients to interview them was that their personal data (name, address, and so on) is considered to be confidential by the Federal Law

of Transparency and Access to Public Government Information. In this context, the support from the National Coordination of *Oportunidades* was especially important since they helped us to locate ex-recipients who had finished high school. Apart from the National Coordination, in every one of the thirty-one states in Mexico and the Federal District there is an *Oportunidades* office. This office is responsible for maintaining contact with the local population to organize them so that the payment of the cash grants is properly carried out, to select new families to be part of the programme when required, and so on. To make sure that this is properly done, they invite some mothers who are part of the programme, called *vocales*, to help them to organize the activities of the beneficiaries, solve disputes between them and pass on to them relevant information about the programme. The local coordination put us in contact with these *vocales* and asked them for their support to help us with our research.<sup>55</sup>

By the end of January 2012, the first draft of the questionnaire was ready to be tested. We now had to pilot the questionnaire; therefore, we contacted the *vocales* and told them we needed to carry out a pilot application of the questionnaire with a small sample of ex-recipients in order to find whether the questions were clear, if it was not too long and so on. Quickly, the *vocales* convened some of the ex-recipients who they knew to undertake an application of the questionnaire in one of the places where the people from the locality are permitted to gather to discuss public issues without the supervision of local government officers. We had around thirty ex-recipients for this first pilot. We gave half of the questionnaires with options and the other half without options in

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<sup>55</sup> Once the state coordination put us in contact with the *vocales*, they did not intervene any more. This was especially important for the research because it was essential that the ex-recipients felt confident about expressing their ideas, opinions, perceptions and so on freely when they attended the focus groups and during the administration of the questionnaire.

order to be sure that the options of every answer were going to capture our research interests. After analysing the data, we had the final version of the questionnaire ready, and we now needed to choose a sampling method that would allow us to obtain a reliable number of ex-recipients to interview, from which we could make well-supported generalizations from our findings about the ex-recipients of the *Oportunidades* programme of our selected region.

### **3.3.3 Sampling techniques**

It has been recognized that the selection of a sample of cases from a population of research presents two main methodological problems: sample representativeness and variations in the dimensions of theoretical interest (Seawright & Gerring 2008, 296). As already explained, our main field of enquiry was the connection between the ex-recipients of the *Oportunidades* programme, the labour market and the state's institutions; therefore, we had to interview ex-recipients who were economically active. Consequently, we interviewed only those ex-recipients who had finished high school while they were members of the programme and who were between eighteen and twenty three years old.

Having clarified the dimensions of theoretical interest, the second problem was how to ensure the representativeness of our sample. Since we knew the characteristics of the population that could provide us with information which is theoretically of interest to us, we decided to use *purposeful sampling*. In this method, the sample units are chosen because they have particular features or characteristics "which will enable detailed exploration and

understanding of the central themes and puzzles which the researcher wishes to study” (Ritchie & Lewis 2003, 49-52).

There are different purposeful sampling strategies: quota or stratified sampling, snowball sampling, systematic sampling, cluster sampling, and so on (Neuman *op. cit.*, 242). For the purposes of our research and fitting with our theoretical interests, the sampling strategies that we decided to use were the *snow ball* and the *stratified random sampling* methods. In the former, a non-representative sample of a group or groups of individuals is selected according to the theoretical interests of the researcher and then different actors with a direct or indirect linkage to the initial group are interviewed as well. In the latter, the target population is selected according to the theoretical interests of the study, and then a representative selection of cases from the subgroup is made at random.

Accordingly, as previously explained, we started our fieldwork interviewing a small group of ex-recipients who had finished high school while they were members of the programme and who were between eighteen and twenty three years old. Once we transcribed and analyzed this preliminary exercise we proceeded to interview other relevant actors in the government, the private sector and civil society that had been named directly or indirectly in the first interviews. After analysing all this data in the light of our theoretical and introductory chapters, we had the final version of the questionnaire ready; we now needed to obtain a representative number of ex-recipients to interview, from which we could make well-supported generalizations from our findings about the ex-recipients of the *Oportunidades* programme of our selected region.

In order to do that we needed to define three things: 1. the level of precision; 2. the confidence level; and 3. the degree of variability. Regarding levels of precision and confidence level, we based our sample on the general standards employed in this type of survey of social content, and worked to the usual confidence level of 95% and 5% of sampling error. The level of precision or sampling error is the closeness with which the sample predicts where the true values in the population lie. That is, if the sampling error is 5%, this means we add or subtract 5 percentage points from a value in the sample to find out the actual value in the whole population. For instance, if a value in a sample says that 70% of ex-recipients think that the state is not capable of alleviating poverty, and the sampling error is 5%, we know that in the population from which we have drawn our sample, between 65% and 75% are likely to think the same. The confidence level, on the other hand, means that if the population was sampled 100 times in the same way, 95 of these samples would have the true population value within the range of the level of precision specified earlier, and five would be unrepresentative samples.

Finally, the degree of variability is the degree to which the attributes or concepts being measured in the questions are distributed throughout the population. Regarding the degree of variability, we also used the general standard employed in this type of survey of social content: 50%-50%. For instance, if we wanted to know the opinion of the ex-recipients towards the way in which the public servants of the Ministry of Labour perform their job and due to our experience or knowledge we already know that more or less 80% of the interviewees will have a negative opinion and the remaining 20% will have a positive opinion towards them, then our degree of variability is 80-20. However,

when we do not have that knowledge or the answers are not so apparent, the standard 50%-50% degree of variability provides a more accurate sample size (Dillman & Salant 1994, 55). As explained above, the cohort for our research was comprised of the ex-recipients of the *Oportunidades* programme who had potentially finished high school in the municipality of Toluca. Therefore, with a population of 4,176 ex-recipients (see Table 3.5) who had been enrolled in the final year of education, substituting all the values we argued for above, we obtained a sample size of 352 ex-recipients.<sup>56</sup>

For the final administration of the questionnaire, the vocales helped us to locate ex-recipients who had finished high school in the different localities of Toluca. We needed six successive weeks to complete our sample size. The interviews were undertaken either in front of the houses of the ex-recipients or their places of work, and some of them agreed to meet us in public places (public parks or gardens) where the people of *Oportunidades* held meetings whenever they needed to do so in the different localities of Toluca. All the data collected from the survey was analysed using the descriptive SPSS functions as we shall see later in the following chapters.

### **3.4 Final remarks**

In this chapter, we have explained in detail the research design of this study. We have highlighted the advantages of combining qualitative and quantitative methods for research and we have also pointed out the importance of each of them. More precisely, we have reported in depth the way in which our fieldwork proceeded and the way we managed to solve the main difficulties that

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<sup>56</sup> See: [http://biblioteca.uam.es/sc/documentos/encuesta/anexo\\_iii.pdf](http://biblioteca.uam.es/sc/documentos/encuesta/anexo_iii.pdf). For a full explanation of the mathematical formula to determine a sample size.



we faced and how we defined and built our sample. Before we went to Mexico, our research project was successfully approved by the Humanities and Social Sciences Ethics Committee (HSSEC) of the University of York, which made only two recommendations regarding the interviews with the ex-recipients. First, to make clear verbally (and in writing on the project information form) that we were not part of, or connected to, the Ministry of Social Development team and that the grant of their family members was not conditional on them completing this questionnaire and, second, to obtain a signed record of consent from each participant (see appendices 2 and 3).

The main part of our research methodology is without doubt made up of quantitative methods because we wanted to be able to make generalizations from our findings about the ex-recipients of the *Oportunidades* programme of our selected region in order to provide a good example of the relationship between the cash transfer programmes, the capacities of the state and the labour market in urban zones. Nonetheless, it must also be highlighted that we also gave ourselves room to carry out qualitative interviews with the ex-recipients and other relevant actors in order to explore and understand their perceptions towards our object of study. Furthermore, the qualitative interviews helped us to develop our questionnaire and to triangulate the results of our questionnaire which allowed us to better answer our question.

The questionnaire was designed to understand and explore the extent to which the weakness of the institutional capacities of the state has shaped the labour market in a way that has impeded the poor from obtaining sustained income to escape poverty. Consequently, our research design allows us to

identify the links between the institutional capacities of the Mexican state, at the three levels of government, and the labour market, contextualizing poverty beyond the understanding that it is the consequence of the lack of basic education and health. In the next three chapters, we shall analyse the extent to which the weakness of the institutional capacity of the state prevents the ex- recipients of the *Oportunidades* programme who had finished high school that we interviewed from obtaining sustained income in the labour market.

## CHAPTER 4

### ***OPORTUNIDADES*, THE LABOUR MARKET AND THE REGULATORY-MARKET CAPACITY OF THE STATE**

#### **Introduction**

In the first part of the thesis, we have discussed our research problem, contextualized the Mexican anti-poverty policy *Oportunidades* within the Latin American and Mexican scenario and reviewed the way in which the levels of labour informalization and economic insecurity have increased in recent decades. We also studied the experiences of other developing and developed countries and showed why the institutional capacities of the state are a key factor in alleviating poverty. In the next three empirical chapters, we shall shed light on the extent to which the weakness of the institutional capacities of the Mexican state have shaped the labour market in a way that has impeded the *Oportunidades* programme from enabling the poor to obtain sustained income that would allow them move out of poverty.

In this chapter, we shall examine the extent to which the weakness of the regulatory-market capacity of the state impedes the *Oportunidades* programme from enabling the poor to obtain sustained income in the labour market. We argue that the weakness of the regulatory-market capacity of the state, brought about by the weakly institutionalized bureaucratic and third party enforcement apparatuses in the world of labour, impedes the state from making the private sector comply with the law while fostering employment generation. As already explained, Mexico is a Federal state divided into three levels of government:

federal, state and municipal. For the purposes of our research, we shall undertake our analysis accordingly since the labour market is shared and shaped by the institutional capacities of the three levels of government. In the case of the local governments, state and municipality, we shall mainly focus on the cases of the State of Mexico and Toluca respectively, where we carried out our fieldwork.

This chapter is divided into five sections. The first section will introduce brief descriptions of the population that we interviewed. The second section will discuss the extent to which the weakly institutionalized bureaucratic apparatus of the Mexican state impedes the protection of the workers' rights while fostering employment generation. In section three, we shall discuss the extent to which the weakly institutionalized third-party enforcement has limited the ex-recipients from forming or being part of a worker's organization that represents their interests against the employers and the state. Section four will consider the extent to which the weaknesses of the regulatory-market capacity of the Mexican state has increased the levels of labour informality, which has reduced the opportunities of the ex-recipients to obtain sustained income in the labour market. Section five presents the main conclusions of the chapter.

#### **4.1 A brief description of the population interviewed**

As we have already explained in Chapter 3, we interviewed 352 ex-recipients, and of these 209 (59.4%) were female and 143 (40.6 %) were male. The age range of the population was a span of six years, with people between 18 and 23 years old. The mean age of our population was 20.5 years; the mode

was 19 and the median was 20 years, as Table 4.1 shows. As for their marital status, Table 4.2 shows that almost 80% of the population were single whereas the remaining 20% were married, divorced or cohabitating.

**Table 4.1 Sex and age of the ex-recipients**

Sex	Age						Total
	18	19	20	21	22	23	
Female	22	45	36	40	21	45	209 (59.4%)
Male	16	33	32	23	18	22	143 (40.6%)
Total	37	78	68	63	39	67	352
Source: Author with information from our survey.							

At the time that we undertook our research, the whole population that we interviewed resided in Toluca. Table 4.2 shows that 55.4% of our population were working or had a job or an occupation, 27% were studying for a BA and 17.6% of the population were unemployed. The characteristics of our population are very similar to those of the general population of Toluca of a similar age. According to INEGI, by 2010 among the population of Toluca between 20 and 24 years old (74,646, 49% men and 51% women), 52% (33% men and 19% women) had a job or an occupation whereas the remaining 48% (16% men and 32% women) did not have a job because they were either studying or unemployed.

**Table 4.2 Sex, living and marital status of the ex-recipients**

Sex	What do you do	Marital status				Total	%
		Single	Married	Divorced	Cohabiting		
Female	Student	56	2	0	0	58	16.5
	Employed	65	9	2	8	84	23.9
	Own business	8	3	0	2	13	3.7
	Study and work	4	0	0	0	4	1.1
	Unemployed	28	9	1	12	50	14.2
	Total	171	23	3	22	209	59.4
Male	Student	37	0	-	0	37	10.5
	Employed	50	9	-	11	70	19.9
	Own business	17	2	-	1	20	5.7
	Study and work	4	0	-	0	4	1.1
	Unemployed	11	1	-	0	12	3.4
	Total	119	12	-	12	143	40.6

Source: Author with information from our survey.

As argued in Chapter 2, labour market institutionalization is divided between the federal and the state level. Therefore, we shall pay attention to the different sectors of the economy where the ex-recipients worked that are the responsibility of each level.<sup>57</sup> As Table 4.3 shows, of the 352 recipients that we interviewed, 46 (13.1%) worked in some industrial or goods and service branches that belonged to federal jurisdiction (FJ), 149 (42.3%) worked in industrial or goods and service branches that belong to local jurisdictions (LJ), 95 (27%) were full-time students and 62 (17.6%) were unemployed.

<sup>57</sup> The Federal level is responsible for the general conditions of work in key industries such as textiles, electronics, cinematography, sugar, mining, rubber, metal and steel, hydrocarbons, petrochemicals, cement, lime; automotive including mechanical and electrical auto parts; chemistry, including pharmaceutical chemistry and medicine; cellulose and paper; vegetable oils and fats, production of packaged, canned or bottled food, production of bottled or canned beverages; railroad; basic timber, glass, and tobacco, banking and credit services whatever their location, while the state level, on the other hand, is in charge of monitoring labour laws as a whole in all branches established in its territory, other than those that are part of the federal jurisdiction. As for the health and safety and training issues, the local jurisdiction is in charge of inspecting all the companies that are established in its territory even of those that are under federal jurisdiction.

In comparison with the population of Toluca, as far as employment by sector is concerned, we could not find data per jurisdiction. However, according to INEGI, by 2010 around 50% of the population in Toluca worked in the service sector, around 27% in the industrial sector and around 20% had a business of some kind. As Table 4.3 shows, of those that we interviewed, more than 50% of the ex-recipients who had a job or an occupation were working in the service sector, around 22% were working in the industrial sector and around 15% had a business of some kind. In this sense too, our population is very similar to the general population of Toluca as far as their employment by sector is concerned.

**Table 4.3 Workers in federal and local jurisdictions**

Current employment	High-tech FJ	Manufacturing FJ	Services FJ	Federal government	Manufacturers LJ	Services LJ	Local government	Microenterprises LJ	Informal LJ	Students and unemployed	Total
Students	0	0	0	0	0	0	0	0	0	95	95
Craft	0	0	0	0	1	1	1	0	7	0	10
Helper/ assistant	7	15	0	0	2	25	0	12	0	0	61
Cashier	0	0	0	0	0	10	0	0	0	0	10
Labourer	0	0	0	0	0	0	0	0	2	0	2
Unemployed	0	0	0	0	0	0	0	0	0	62	62
Nurse	0	0	0	0	0	2	3	0	1	0	6
Engineer	1	1	0	0	0	0	0	0	0	0	2
Janitor	0	0	0	1	0	0	1	0	1	0	3
Instructor	0	0	0	1	0	3	0	0	0	0	4
Waiter	0	0	0	0	0	2	0	0	0	0	2
Own business	0	0	0	0	0	0	0	28	5	0	33
Nanny	0	0	0	0	0	0	0	0	1	0	1
Worker man	1	12	1	0	0	1	0	0	0	0	15
Clerk	0	1	2	0	0	2	0	1	0	0	6
Private security	0	1	0	0	0	0	1	0	0	0	2
Public servant	0	0	0	2	0	0	5	0	0	0	7
Employee	0	0	0	0	0	2	0	0	0	0	2
Technician	0	1	0	0	0	7	0	1	0	0	9
Telemarketer	0	0	0	0	0	6	0	0	0	0	6
Peddler	0	0	0	0	0	0	0	0	1	0	1
Counter seller	0	0	0	0	0	11	0	2	0	0	13
<b>Total</b>	<b>9 (2.8%)</b>	<b>31 (8.8%)</b>	<b>3 (0.9%)</b>	<b>3 (0.9%)</b>	<b>3 (0.9%)</b>	<b>72 (20.5)</b>	<b>12 (3.3%)</b>	<b>44 (12.5%)</b>	<b>18 (5.1%)</b>	<b>157 (44.6%)</b>	<b>352</b>

Source: Author with information from our survey.



## **4.2 Weakly institutionalized bureaucratic apparatus**

Following the logic of our theoretical framework, one of the main reasons why the private sector has been able to advance labour market flexibilization through an informal process is the institutional weakness of the Mexican state to make the employers comply with the law, helping them at the same time to increase or maintain their productivity, by institutionalizing specialized organizations to fulfil this function. The organizations upon which the institutionalization of the labour market depends are, on the one hand, those organizations of the state in charge of monitoring and inspecting the labour regulations and those in charge of the application of labour justice, and on the other hand the unions. In this section, using the data that we obtained in our fieldwork, and drawing on Chapters 1 and 2, we shall analyse the extent to which the weakly institutionalized bureaucratic apparatus of those organizations of the state in charge of the labour justice impedes the state from making the private sector comply with the law while helping them at the same time to increase or maintain their productivity.

### **4.2.1.1 Labour inspection**

During all the stabilizing period (1940-1970) and until the late 1990s, labour inspection in Mexico, as in most of the Latin American countries, was based on a good amount of inspections and strict sanctions, which were supposed to force firms to give up violating the law due to the fact that the probability of being caught and the cost of punishment were higher than the benefits of non-compliance (Pires 2008, 202). However, as we explained in

Chapters 1 and 2, after the opening of the economy due to the weakness of the regulatory-market capacity of the Mexican state, the bargaining power of the private sector (national and international) grew so much that it escaped the control of the state, influencing the adjustment of the labour market institutions informally in their own interest without going through a formal process.

In 1995, Carlos María Abascal, the president of the Employers' Confederation of the Mexican Republic (COPARMEX) and the most influential union leader at that moment, Fidel Velázquez of the Confederation of the Mexican Workers (CTM), agreed the principles of the New Labour Culture that should be followed within the world of labour.<sup>58</sup> In 2000, when the right-wing political party PAN took over, Abascal was appointed Minister of Labour and in 2001, claiming that the lack of compliance with labour norms was due to the fact that the private sector and the employees did not know them, the Mexican state envisioned a new role for labour inspection as a compliance-guide and advisory body. Accordingly, budgets for inspectorates were decreased by as much as 80% from previous periods (Bensusam 2007, 13-17). Instead they started programmes that were supposed to allow employers and workers to know about labour legislation, which would encourage their voluntary compliance with labour norms, leaving sanctions aside.<sup>59</sup>

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<sup>58</sup> The principles governing the new labour culture that he promoted were: 1. human work has an ethical value and transcendence; 2. what determines the value of the work is, first, the dignity of the person; 3. the work is a source of rights and obligations; 4. a fair compensation for the work; 5. training for personal growth; 6. teamwork; 7. an inclusive society; 8. the dialogue and unity of efforts; 9. solidarity between workers and employers; 10. productivity, quality and competitiveness; and 11. social responsibility (STyPS 2003). As we can see, none of these involved a real commitment to combine productivity and law enforcement, nor even to comply with the law.

<sup>59</sup> The main programmes are: 1. The Self-Management Programme on Safety and Health at Work (1999) (PASST - *Programa de Autogestión en Seguridad y Salud en el Trabajo* in Spanish). The objective of PASST is to encourage the companies to incorporate administrative systems of security and health voluntarily

**Table 4.4 Number of inspectors per 1000 workers 2006 federal level**

Country	Number of Inspectors	Number of workers	Rate
Argentina	392	10,737	3.65
Brazil	3,048	90,962	3.35
Chile	320	6,345	5.04
China	43,000	753,600	5.71
Germany	3,810	41,149	9.26
Mexico (2006)	219	42,643	0.51
USA	2,100	149,320	1.41

Source: Romero (2008, 130).

As a result, the labour inspection situation deteriorated seriously. Since 1994 the number of inspectors has decreased by more than 50% (Bensusam 2007, 14). By 2006, Mexico had a very low coverage of inspectors per worker, as Table 4.4 shows, and the number of inspections decreased significantly; between 2001 and 2006 only 1.76% (14,325) of the workplaces registered with IMSS and 3.7% of those registered with the Ministry of Labour were visited (Romero 2008, 127). Accordingly, sanctions applications decreased too.

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and in exchange they will not have inspections related to health and safety. It is directed at high risk companies and/or those that have more than 50 employees. However, although since the programme started the number of accidents has decreased, due to its complexity most of the firms registered are big enterprises, and it is rare for a medium or small firm to register for it (Bensusam 2008, 97). 2. Labour Electronic Declaration (2005) (*Declaración Laboral Electrónica* in Spanish). The objective of DECLARE is that companies and workers know the norms and regulations and it covers the declaration of the private sector companies of all the labour regulations. There are random checks to verify that the companies are fulfilling what they declare; if they do not do so, they are given some time to comply. If they do not do so again then they are sanctioned. According to Bensusam, by August 2006 1,288 were registered but only 697 declared (*ibid*, 99) and; 3. Private units of verification. The companies that agree to have private certification in health, safety and working environment will not receive any more visits in the next two years although random checks are supposed to take place to verify that they are complying with the law. Units of verification are classified into three different types: A, those that work as third-party enforcement; B, those that work as an internal comptroller, that is, they belong to the organization that they verify; and C, those that, apart from verifying the norms, design, maintain and manufacture the products that they verify. There are 109 units of verification in total but only five that undertake real third party enforcement (Type A); all the others have some kind of close relationship with the firm that they verify.

Bensusam reported that during 2000 and 2006, there were 43% fewer fines imposed than in the previous administration and the amount of money collected decreased by around 40% from 2002 to 2005, falling from 8,067,254 to 4,887,163 pesos (2008, 91-93), thereby weakening the fiscal capacity of the state as well.

At the end of the Vicente Fox period (2000-2006), a very unfortunate incident showed that this new and friendlier labour inspection was not exactly the right one. In the state of Coahuila, located in the northern part of Mexico, in a charcoal mine known as *Pasta de Conchos*, 65 workers died after an explosion due to a lack of appropriate health and safety measures.<sup>60</sup> Four local mine supervisors were convicted of manslaughter and in 2010 the court of administrative and fiscal justice found the Ministry of Labour guilty of omission and negligence in the accident (Bensusam & Middlebrook *op. cit.*, 58).<sup>61</sup> This was the first time that the judicial system had recognized the legal responsibility of the executive. The response of the Federal government was to increase the budget dedicated to labour inspection and in consequence the number of inspectors. In 2007, a hundred more inspectors were hired and 458 more between 2011 and 2012, although the coverage of inspectors per worker is still very low in comparison with some other developing countries, as previously noted.<sup>62</sup>

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<sup>60</sup> According to Bensusam, half of the workers who died in the *Pasta de Conchos* incident worked for an outsourced company, had low salaries and were without access to any kind social security (2007, 65).

<sup>61</sup> On 14 August 2012 and then on 31 January 2013, there were explosions in two different plants of the Mexican state oil company (PEMEX), which coincidentally was certified as a Type B private unit of verification in 2003 due to it being economically very important and a very high-risk company.

<sup>62</sup> Data obtained from the STyPS requested through IFAI in 2012.

However, the low number of inspectors is not the only problem, nor even the main one. Due to the nature of their function, being street-level bureaucrats, labour inspectors have high discretionary powers to interpret the norms, the level of sanction or remedial plan that they apply in each case.<sup>63</sup> In recent years it has been empirically demonstrated that bureaucratic discretion is not only pervasive but also necessary so that labour inspectors can really be a vehicle to link social and economic development as long as their activities are properly institutionalized formally and informally (Piore & Schrank 2008; Pires 2008 & 2011; Schrank 2009). More precisely, to make firms comply with their regulatory obligations, it is required that inspectors are not only specialized in the economic sector that they inspect but are also deeply involved with the business and companies in order to develop innovative solutions to maintain and/or enhance their productivity and competitiveness but with enough autonomy to make them comply with the labour norms and regulations.

The key elements that some empirical studies in Latin America have identified to achieve such a goal are as follows. 1. Public officials are recruited and remunerated on the basis of their merits and specialized in economic or industrial sectors, which allows them to engage in root-cause analysis and open-ended conversations with other government and non-government actors, weighing the numerous values at stake, bringing about effective solutions (Piore & Schrank 2008, 12; Pires 2011, 61). In a study of the Brazilian case, Pires (2008, 208) showed that by targeting different industries as a whole, labour

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<sup>63</sup> In Mexico, the inspector decides the exact amount of fines that are imposed. Only if corrective measures ordered by labour inspectors are not implemented by the employers and if problems persist may the Ministry of Labour order a partial or complete closure of the workplace until the violation has been eliminated. According to data obtained from the STyPS requested through IFAI in 2012, from 2001 to 2012 only one firm was closed for non-compliance with labour regulations.

inspectors have been able to find solutions that range from health and safety measures that reduced occupational accidents without having to replace obsolete and dangerous equipment, which would be costly, improving the quality of products that used dangerous chemicals, decreasing the number of workers' accidents, and in the informal sector, establishing temporary contracts specific to the business's activities, and establishing basic protections for workers without having to pay all fringe benefits. 2. Coercive strategies are necessary for the effectiveness of the technical solutions. In his research in Brazil, Pires (*ibid.*, 214,216) also showed that the inspectors had to impose fines along with technical solutions to let the employers know that if they did not get involved in finding or implementing the solutions proposed, they would have to face the strength of the law. 3. It is necessary that the supervision of inspections incorporates short-, medium- and long-term goals (*ibid.*, 206-209). Short-term goals will allow inspectors to measure the outcomes of inspections in terms of the compliance of the labour norms and regulations. Medium- and long-term goals, on the other hand, will allow them to define goals, procedures and strategies to enhance the firms' productivity while making them comply with labour norms and regulations.

In Mexico, on the other hand, the labour inspection situation is contrastingly different. For instance, at the federal level, despite the fact that in 2003-2004 a civil service system that was supposed to bring about higher organizational capacity, professionalization and corporate coherence was implemented, the corporatist practices that structure the institutional framework of the state have constrained the development of an effective labour inspection apparatus. In the broadest terms, the civil service would combine Weberian

principles of meritocracy and the necessary public officials' market responsiveness to adjust to new economic tendencies.<sup>64</sup> This would suggest that as far as labour inspection is concerned, the civil service should ideally help to reconcile the employers' demand for flexibility with the workers' demand for protection.

As already explained, in Mexico, at the federal level, there are 776 labour inspectors, all of whom are part of the civil service system of the Federal Public Administration. There are two kinds of inspector: 1. specialized inspectors, in charge of watching the businesses that are considered to be high risk, such as chemical companies; and 2. regular inspectors, in charge of watching low-risk companies.<sup>65</sup> In their respective jurisdictions, both are responsible for the enforcement of all the labour norms and regulations. The problem is that although they are recruited according to their merit, they are not responsive to the market since they are not specialized in the different economic or industrial sectors. The profiles that they mainly look for are lawyers and engineers. However, the training courses that both of them receive are only about the labour norms and regulations and interpersonal relationships and they are not trained in the particularities of the production processes of the different sectors of the economy. Moreover, the only difference between the regular and

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<sup>64</sup> Presentation by José Silvestre Méndez, member of the designing group of the LSPC of the federal public administration, in the Diploma course in *Gestión Integral de la Función Pública en México: Profesionalización y Transparencia*, organized by UNAM (*Universidad Nacional Autónoma de México* in Spanish) and Cámara de Diputados (National Parliament of Mexico). March to July 2006. Mexico City.

<sup>65</sup> Federal inspector wages range from around 900 dollars per month for the specialized inspector and less than 700 dollars per month for the regular inspector, this being one of the lowest for the staff of the Ministry of Labour (Bensusam 2007, 13-17).

specialized inspectors is that specialized inspectors are required to have more experience at the moment of recruitment or promotion.<sup>66</sup>

Furthermore, supervision at the federal level comprises only the verification of short-term goals and the procedure to change them is very rigid. In consequence, there is no way to establish remedial plans that take into account both legal and economic variables in the medium and long term. This hinders them when it comes to understanding the obstacles that prevent firms from complying with the law and proposing legal and/or technical solutions adapted to their needs, which, along with their low wages, lack of experience and necessary equipment to perform inspections properly, makes it difficult to detect irregularities. For instance, during our fieldwork, we had the chance to interview the chief of human resources of a small company that manufactured automobile seats and she confirmed that in order to comply with the law sometimes a long-term perspective is necessary because the way in which the products have to be manufactured, the materials and also the workers change constantly and it is not easy for the enterprises to change their machinery or train the workers in a short period of time. In this sense, it is necessary that labour inspection also incorporate medium- and long-term goals that would allow the inspectors to define strategies to enhance the firms' productivity.

The situation in the State of Mexico is not very different from what we have presented about the federal level. Moreover, were we to take into consideration that the state level is in charge of the inspection of most of the service sector, and that most of the employment is now growing in that sector,

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<sup>66</sup> Data obtained from the STyPS requested through IFAI in 2012.



we could easily say that it is even worse. To start with, the role of labour inspection is both a compliance-guide and an advisory body that has to fulfil short-term goals. Additionally, by 2012 there were only 27 inspectors in the State of Mexico, 80% of them politically appointed.<sup>67</sup> Of those, twelve were in charge of monitoring health and security issues with a goal to inspect 150 enterprises annually (around 6200 workers) and fifteen were in charge of monitoring general conditions of work and training issues with an annual goal of 300 enterprises (around 11,500 workers).<sup>68</sup>

In addition, in interviews carried out with people in the General Direction of Inspectorate of the Ministry of Labour of the State of Mexico, we were told that due to the lack of budget and staff, they do not have access to an updated census of centres of work, which forces them to limit inspections to the companies for which they have all the information.<sup>69</sup> Therefore, informal enterprises, those that do not pay taxes whatsoever, are outside the scope of the inspection because they are only inspected if a worker makes a complaint. Moreover, they argued that the lack of institutional coordination with the Federal Ministry of the Treasury (SHCP) made it even more difficult since the average period of life of a business or enterprise in the service sector is normally two years, but the two ministries do not share information that could help to keep the census updated. Furthermore, as far as the inspection of training conditions is concerned, the local inspectors check that the enterprises comply with the

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<sup>67</sup> Data obtained from the Ministry of Labour of the State of Mexico (ST) requested through INFOEM in 2012.

<sup>68</sup> According to INEGI, by 2012 there were 585,000 centres of work established in the State of Mexico, which would give us a rate of one labour inspector for around every 24,375 centres of work.

<sup>69</sup> The people of the General Direction of Inspectorate of the Ministry of Labour told us that in the last ten years, the budget of the Ministry of Labour had been increased by only 500,000 pesos (around 25,000 pounds sterling) and that they had only five cars for the 27 inspectors to travel around the State of Mexico which has a total area of 22,351 km<sup>2</sup>.

labour norms and regulations but only on paper and not in practice. That is, they have to verify whether the enterprises have a training programme and let the Federal Ministry of Labour know, but they do not confirm that the courses are carried out or interview the workers about this.

In the same interview with the chief of human resources of the small company that manufactured automobile seats, she told us that the enterprise where she worked was a house that did not even fulfil the minimum requirements of security signalled by the labour norms and regulations and that although workers are registered in IMSS, if there is an accident they take them to a private hospital so that the owners of the enterprise do not have to pay for medical leave or attract the attention of IMSS in regard to the working conditions that they offer. According to her, when there are health and safety issues, workers do not sue the enterprise because they know that a trial will last a long time and that hiring a prestigious advocate is very expensive.

In addition, she told us that in the two years that she had been working for that enterprise they had never been inspected. According to her, this was mainly because her enterprise was a small one, with only around 100 workers, and inspectors prefer to monitor the medium- or large-sized ones because in those they can obtain a higher bribe in the case of an enterprise violating the labour norms and regulations. When we questioned her about why the inspector would be after a bribe if labour inspection was supposed to be an advisory body that only fined as a last resort, she told us that the inspectors take advantage of the lack of knowledge of the norms by the enterprises and they still made them believe that they would be fined if they did not bribe the inspectors.

In this sense, the logic of the fact that enterprises do not know the labour norms and regulations could be correct. However, there is a constraint that has to be overcome first: the corruption of the labour inspectors brought about by the weak institutionalization of the state's bureaucratic apparatus that could be involved deep enough with the private sector to help them increase or maintain their productivity, but with enough autonomy to protect workers' rights. This is one of the reasons why firms are not always open to inspectors' advice. Nor are they willing to change the way they normally do business at the inspectors' request.

For instance, during our fieldwork, we also had the opportunity to interview a member of an automotive cluster who worked in the State of Mexico between 2008 and 2010. The cluster was an initiative of the government of the State of Mexico in order to encourage the growth of the automotive industry, one of the most important industries in the State of Mexico, and generate employment. The idea was to gather the big, medium, small and microenterprises and other actors that are part of the automotive sector, link them to each other and listen to them, and then come up with solutions that benefit everyone. He shared information with the members of another similar but successful cluster situated in the city of Monterrey in the state of Nuevo León in the northern part of Mexico. When we asked him why the cluster of Monterrey, unlike the one of the State of Mexico, was successful, he commented that the main difference had been that in Monterrey, although it had also been an initiative of the government, the cluster and its organization were led by members of the private sector who were able to convince other entrepreneurs to invest time and money in the formation of the cluster, whereas

in the State of Mexico, the cluster had been led by a public servant, albeit a prestigious and educated one, and the entrepreneurs have a negative image of public servants. The opinions of the poor people that we interviewed showed a reality not so far away from what we have argued here, as we shall show next.

**Table 4.5 Monitoring and inspection of the compliance of labour norms**

Type of firm	There are very few inspections	There is corruption to avoid sanctioning the employer	Inspectors are not specialized enough to advise and/or enforce the law	Yes	No answer	Total	%
High-tech FJ	2	0	2	5	0	9	2.6
Manufacturing FJ	15	6	4	6	0	31	8.8
Services FJ	2	0	0	1	0	3	0.9
Federal government	0	0	0	3	0	3	0.9
Manufacturing LJ	1	1	1	0	0	3	0.9
Services LJ	36	15	7	14	0	72	20.5
State government	5	0	1	6	0	12	3.4
Micro enterprises LJ	24	13	0	7	0	44	12.5
Informal LJ	10	6	1	1	0	18	5.1
Unemployed LJ	20	9	0	0	33	62	17.6
Students	2	2	0	0	91	95	27.0
Total	117	52	16	43	124	352	100
%	33.2	14.8	4.5	12.2	35.2	100	

Source: Author with information from our survey.

Table 4.5 shows the opinions of the ex-recipients of the *Oportunidades* programme on questions 9 and 10 of our questionnaire, 'Do you consider that labour inspectors properly monitor and inspect compliance with labour norms and regulations in the companies where you have worked, YES/NO' and 'If you answered NO to the previous question, please indicate why'. Of the 100% ex-recipients who we interviewed, only 12.2% answered that the labour inspectors monitored the compliance of labour laws in an impartial and impersonal way

and 52.6% answered that the labour inspectors did NOT inspect them in an impartial and impersonal way, and the remaining 35.2% (all of them either students or unemployed) did not answer. Of the ex-recipients interviewed who answered NO (52.6%), 14.8% thought that inspectors avoided sanctioning the employers, 4.5% answered that inspectors were not specialized enough to advise and/or enforce the law, and 33.2% answered that labour laws are not enforced properly because there are very few inspections. As we can see, we could not find any general pattern or difference in regard to the opinion of the ex-recipients between the federal and state inspectors.

After having reviewed the situation of the labour inspectorates at the federal and state level and bearing in mind the results of the ex-recipients and some of the interviews with people from the private sector, we confirm first of all that labour inspection is far from being seen as an important instrument to harness the interests of the private sector in pursuit of the general interest. Moreover, we could easily say that it is wrongly seen as a component that could constrain employment generation. However, without a strongly institutionalized bureaucratic apparatus that protects workers' rights, the poor might not be able to obtain sustained income in the labour market as we shall see later on in this chapter.

#### **4.2.2.2 Labour justice system**

At the federal and state levels, there are two main organizations in charge of labour justice: 1. the federal and state Boards of Conciliation and Arbitration (JFCyA – *Junta Federal de Conciliación y Arbitraje* and JLCyA – *Junta Local de Conciliación y Arbitraje* in Spanish) and; 2. the federal and state

Attorney of Workers' Defence (PROFEDET – *Procuraduría Federal de la Defensa del Trabajador* and PRODET – *Procuraduría Estatal de la Defensa del Trabajador* in Spanish). The Boards of Conciliation and Arbitration are in charge of the resolution of labour disputes that arise between workers and employers, or only among employers or among workers in the economic sectors of their jurisdiction. They are structured into a tripartite scheme in order to ensure “equal” representation between the private sector and workers: an equal number of employers' and workers' representatives and a representative of the government, who plays the role of a referee to defend workers' rights. The Attorneys of Workers' Defence, on the other hand, are in charge of advising workers and representing them in trials against employers or unions.

The Boards of Conciliation and Arbitration were the cornerstone of the corporatist model that prevailed in Mexico before the opening of the economy since they were only established to keep unions under control (López 2006, 15). This is because in spite of being the organizations in charge of enforcing labour justice, they do not belong to the judicial power but they are supposed to be autonomous bodies. However, the representatives of the state in both its federal and local offices are appointed directly by the federal and state executive power, respectively, and the staff of both bodies is appointed directly by their superior as well.<sup>70</sup>

Furthermore, Article 919 of the LFT states that these Boards can modify agreed working conditions (in collective contracts) in order to achieve balance

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<sup>70</sup> The JFCyA is composed of 66 offices called Special Boards of Conciliation and Arbitration. Every one of these special boards is specialized in the conciliation and arbitration of the sectors of the economy that the Ministry of Labour designates. The JLCyA, on the other hand, has two offices in the State of Mexico that cover the most populated regions, one in Toluca and the other one that covers the municipalities that surround DF.

and social justice in the relations between workers and employers. In this sense, there is a major contradiction in the law as far as the performance of the bureaucratic apparatus of the state is concerned since the Boards should not be playing both roles.<sup>71</sup> Consequently, there are no real checks on the wrong performance of the other organizations of the government, which is, as we argued in Chapter 1, the only way to guarantee impartiality and impersonality in the solution of labour conflicts. According to Aguilar *et al.*, by 2007 there were 183,298 trials without resolution because the representatives of the private sector delay the trials on purpose, since in order for the boards to carry out a trial, 51% of all the members have to be present (2012, 28).

In the case of PROFEDET and PRODE, the situation is even worse since, first of all, both organizations belong to the executive power, which, as we argued above, might be more interested in keeping firms running so that there is employment than in protecting workers' rights. Moreover, although the budget allocated to these offices has been increased since 2001, albeit only nominally, it has not been enough to improve the number of services provided.<sup>72</sup> In the case of PROFEDET, there are only 210 lawyers dedicated to providing advice to the more than 42,643 workers who exist within federal jurisdiction, of which only sixteen belong to the professional service career and the other 194 are politically appointed. As for PRODE, there are only 43 lawyers dedicated

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<sup>71</sup> Bensusam interviewed magistrates of the judicial power about the performance of the personnel of the JFCyA regarding the resolution of conflicts and they pointed out that the wide range of discretion and their lack of professionalism are two of the most important problems in the administration of labour justice (2007, 24).

<sup>72</sup> PROFEDET has 45 offices all over the country and two automobiles with one lawyer each that visit the most populated working places to provide advice to the workers. Apart from DF, where there are more than 100 advisors, the average number of advisors per state is only three. Data obtained from PROFEDET through IFAI requested in 2011.

to providing advice to the more than 3,000,000 workers within local jurisdiction, all of them politically appointed.<sup>73</sup>

Accordingly, in our fieldwork we found that the law enforcement in the resolution of conflicts between workers and employers is believed to benefit the employers and that workers are not properly advised on how to defend their rights in those kinds of conflict. Questions 11 and 12 were: 'With what level of impartiality and impersonality do you believe that the labour norms and regulations are enforced in the resolutions of conflicts between workers and employers?' and 'If you answered low or very low in the previous question, indicate the main reason you chose that answer'.

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<sup>73</sup> In the case of PRODE, there are two main offices one in Toluca and another one in the municipality of Tlalnepantla. Data obtained from the website of the local Ministry of Labour of the State of Mexico: <http://portal2.edomex.gob.mx/strabajo/index.htm>. Accessed: January 2012.



**Table 4.6 Level of impartiality and impersonality with which labour norms and regulations are enforced**

Type of firm	The rights of the workers are disregarded to benefit the employer	Trials take too long to finish	Workers are not properly advised on how to defend their rights	No answer	Total	%
High-tech FJ	5	0	1	3	9	2.6
Manufacturers FJ	15	5	6	5	31	8.8
Services FJ	1	0	0	2	3	0.9
Federal government	2	1	0	0	3	0.9
Manufacturers LJ	1	1	1	0	3	0.9
Services LJ	35	11	12	14	72	21.5
Local government	1	2	5	4	12	3.4
Microenterprises	6	9	10	19	44	12.5
Informal*	2	5	6	5	18	5.1
Unemployment	30	4	10	18	62	17.6
Students	43	11	25	16	95	27
Total	141	49	76	86	352	100
%	40.1	13.9	21.6	24.4	100.0	

Source: Author with information from our survey.

\*By informal jobs, we mean those jobs in complete informality since people work on their own as masons or peddlers. That is with no contract, no kind of social security, no access to organizations that represent their interests and so on.

Table 4.6 shows the opinions of the ex-recipients about the way in which the labour norms and regulations are enforced in the resolution of conflicts between workers and employers. Of the 352 ex-recipients of *Oportunidades* that we interviewed, 76.1% answered that the impartial and impersonal level of enforcement was low or very low and 23.9% answered that it was medium, high or very high. Most of the recipients who answered either low or very low (40.1%) believed that the rights of the workers are usually disregarded to benefit the employer, 21.6% believed that the problem is that workers are not

properly advised on how to defend their rights, and 13.9% answered that trials take too long to finish. Again, we could not find any pattern in the answers of the ex-recipients that could give us elements of analysis to differentiate their opinions in regard to the performance of the federal and local labour justice organizations.

The results presented above would suggest that the corporatist legacies of the Mexican state and the ideology of the new economic model have reinforced each other, worsening the situation of workers, as we shall see later on in this chapter. Therefore, even if a strongly institutionalized bureaucratic apparatus was created, it would not be enough in itself, since some sort of ideological shift is needed as well to harness the interests of the private sector in pursuit of the general interest. The reason is, as we shall see in the next section, because the only reason that the Mexican state has found for increasing and improving the bureaucracy in the world of labour is that they believe that it is a substitute for collective bargaining in the new model rather than a complement.

### **4.3 Weak unions**

In Chapter 1, we discussed the importance of the institutionalization of third-party enforcement in order to guarantee every citizen impersonal open access to the organizations that structure society and that allow the citizenry to pursue their social, political and economic goals equally. However, the state and the private sector have promoted the reduction and shrinking of the unions, which play the role of third-party enforcer of law in the world of labour, because the new economic model, neo-liberalists argue, excludes them since the

economic operations are a great deal more globalized and unions would constrain them. This has impeded workers' organizations from using their political rights to press for wider social rights that could increase the chances of the poor to obtain sustained income.

Moreover, the fact that in Mexico, as in some other Latin American countries, the structural reforms were introduced prior to electoral democracy not only constrained the state from taking advantage of the corporatist legacies of the country to build collective capacities, as happened for example in Brazil, but also, electoral democracy fragmented the labour movement even more since it was more difficult to control the unions at the polls (Bensusam & Middlebrook *op. cit.*, 9).<sup>74</sup> As a result, the private sector normally prefers to break or distort the law to reduce its labour costs since there are no unions strong enough to bargain with, which has brought about the perpetuation of low skill levels and an increase in labour informalization and economic insecurity.

As argued above, the employment law was the main tool that has been used to keep unions under control. The law introduced two main mechanisms to control them: 1. so that they can have representation in the local and national Conciliation and Arbitration Courts, unions have to register with the STyPS (*Secretaría del Trabajo y Previsión Social*) if they are in the federal jurisdiction sector or with JCyA if they are of local jurisdiction and; 2. the exclusion clause (Article 395 of the LFT) brought about collective bargaining as the main source

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<sup>74</sup> In Brazil, for example, the federation of chemical workers had worked together with the administration of Petrobras in order to flexibilize the labour conditions but giving benefits to the workers like participating in the selection of contractors who give more benefits. With Mercedes Benz, the union got the prohibition of the appointing of stable posts of the main activities of the enterprise and there is going to be discussion between the union and the company before any outsourcing procedure (Ermida & Orsatti 2009b, 188).

of recruitment. This clause allows the employer to hire only those employees who belong to the union that the company or firm chooses to work with, forcing workers to join the union or stay in, irrespective of its effectiveness in representing their interests.<sup>75</sup> This brought about the appearance of the employer protection contracts and the so-called white or ghost unions allowed by the complacent labour authorities, which would reject any kind of turmoil against the union chosen by the employer.<sup>76</sup>

Table 4.7 shows that among the ex-recipients who we interviewed, only 7.1% of them had access to workers' organizations, 45.2% did not and 47.7% did not answer. The enterprises that belong to the state level jurisdiction present perhaps the worst scenario since out of 100% ex-recipients who were working in the service sector in an established business, only 11% had access to worker organizations. As far as the manufacturing sector is concerned, only one third (11) of the ex-recipients (34, most of them of federal jurisdiction) had access to workers' organizations and the situation was the same for the high-tech industry, where only three out of nine had access to workers' organizations.

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<sup>75</sup> On 17 April 2001, the Supreme Court of Justice of the Nation (SCJN – *Suprema Corte de Justicia de la Nación* in Spanish) unanimously decided to declare section 395 of the Federal Employment Law unconstitutional. Thirty-one workers of the sugar industry were fired after quitting their union. What the SCJN defended were the rights of the workers to: 1. create a new union; 2. affiliate to a new one or existing one; 3. resign from a union; 4. not affiliate to a union and; 5 belong to any organization. However, due to the characteristic of the Mexican type of law, the decision has not become jurisprudence yet, so, it does not have any general effect, applying only to the 31 workers who were eventually reinstated in their jobs. Similar cases happened in 1996 and 1999 (Garza 2004, 49).

<sup>76</sup> An employer protection contract is basically a collective contract signed without taking into account the workers, pursuant to an agreement between the employer and any union representative, usually a federation or confederation. The firms that use these kinds of contracts the most are the big and medium-sized ones. According to Zepeda, around 80% of the collective contracts in Mexico are fake (2009, 67). A white or ghost union, on the other hand, is a workers' organization that exists only on paper, but in reality there is no such organization since they exist mainly in small firms and the employers name people of their own family as union representatives, taking advantage of the fact that inspectors do not care if the union is properly formed or not. By 2009, the STyPS Minister of Labour had registered 2,375,000 unions, of which only 1180 had real activities (Leyva & Pichardo 2009, 112).

**Table 4.7 Access to workers' organizations**

Type of firm	Yes	No	Did not answer	Total	%
High-tech FJ	3	6	0	9	2.6
Manufacturers FJ	11	20	0	31	8.8
Services FJ	0	3	0	3	0.9
Federal government	1	2	0	3	0.9
Manufacturers LJ	0	3	0	3	0.9
Services LJ	8	64	0	72	20.5
Local government	2	10	0	12	3.4
Microenterprises LJ	0	35	9	44	12.5
Informal LJ	0	16	2	18	5.1
Unemployed	0	0	62	62	17.6
Students	0	0	95	95	27.0
Total	25	159	168	352	100.0
%	7.1	45.2	47.7	100.0	

Source: Author with information from our survey.

The lack of access to workers' organizations, along with the weakly institutionalized bureaucratic apparatus, has impeded the state from harnessing private sector interests into areas of general interest. Therefore, the private sector has found it relatively easy to flexibilize the labour market institutions. For instance, Tables 4.8 and 4.9 show the way in which labour representation in the federal chamber of deputies has decreased and how simultaneously the purchasing power of the minimum wage has decreased as well, especially from the late 1970s onwards when the restrictive wage policy to avoid inflation was established as part of the structural reforms between the unions, the state and the private sector (Bensusam 2008, 31). Moreover, in the same interview that we carried out with the chief of human resources of the small company that manufacture automobile seats, she told us that there had not been a review of the salaries of the workers for ten years because of the lack of workers'

representation. According to her, since it was a family business, the representatives of the unions are relatives of the family and the workers sometimes do not even know that there is a union in the enterprise or who their representatives are, a situation that according to her is known by the Ministry of Labour but they prefer to have the companies running rather than to apply the law.

**Table 4.8 Labour representation in Mexico's Federal Chamber of Deputies, 1979 – 2009.**

Unions	1979	1982	1985	1988	1991	1994	1997	2000	2003	2006	2009
Confederation of Mexican Workers (CTM)	45	50	51	34	36	39	28	12	8	4	8
Revolutionary Confederation of Workers and Peasants (CROC)	11	12	11	11	5	5	3	1	2	2	1
National Union of Workers (UNT)	-	-	-	-	-	-	-	3	1	3	2
Other confederations	4	5	3	5	2	2	3	1	1	1	0
Federation of Public Service Workers' Unions (FSTSE)	9	6	7	4	9	6	6	1	1	1	3
National Education Workers' Unions (SNTE).	12	15	14	13	12	12	7	10	12	17	18
Other national industrial unions.	9	8	10	6	5	1	1	2	4	2	1
Others	1	0	0	1	0	0	0	1	2	5	3
Total labour representatives.	91	96	96	74	69	65	48	31	31	35	36
Labour representatives as a percentage of all federal deputies.	23.8	24.0	24.0	14.8	13.8	13.0	9.6	6.2	6.2	7.0	7.2
Source: (Bensusam & Middlebrook op. cit., 38).											

**Table 4.9 Purchasing power of the minimum wage in Mexico, 1970-2004; Base year: 1970**

Year	1970	1973	1976	1979	1982	1985	1988	1991	1994	1995	2000	2004
%	100%	108.5%	124.3%	117.2%	98.8%	74%	58.4%	45.9%	43.2%	43%	38%	35%
Source: (López 2006, 27).												

Furthermore, the person who we interviewed who was part of the automotive cluster that was due to be formed in the State of Mexico told us that apart from the small, medium and large enterprises, other actors invited as well were, for example, the different universities that were established in the State of Mexico. When we asked him whether the unions had been invited, he told us that no-one, not even the government, considered inviting them. When we asked him why, he said that it was believed by all members of the cluster that they were no longer part of the new economic model.

In contrast, workers still see unions as the bodies that can look after their labour rights. In response to question 13, 'Do you consider it worthwhile to invest your time and pay fees to form unions or workers' organizations that represent your interests to companies? YES/NO', 65% answered YES, whereas only 5.7% answered NO and the remaining 29.3% (mainly students) did not answer, as Table 4.10 shows. Even most of those who worked in the service sector answered that they found it worthwhile to invest time and pay fees to form unions or workers' organizations. However, as we have shown, the limited access to organizations that represent workers' interests, reinforced by and complemented with the weak law enforcement of the organizations in charge of applying labour justice, increases the levels of informalization bringing about short job tenure and income insecurity.



**Table 4.10 Do you invest your time and pay fees to form unions or workers' organizations that represent your interests to companies?**

Type of organization	Yes	No	No answer	Total	%
High-tech	9	0	0	9	2.6
Manufacturing	29	2	0	31	8.8
Services	3	0	0	3	0.9
Government	3	0	0	3	0.9
Manufacturers LJ	3	0	0	3	0.9
Services LJ	66	6	0	72	20.5
Local government	10	2	0	12	3.4
Microenterprises LJ	34	3	7	44	12.5
Informal LJ	12	3	3	18	5.1
Unemployed	58	4	0	62	17.6
Students	2	0	93	95	27.0
Total	199	20	133	352	100.0
%	65	5.7	29.3	100.0	

Source: Author with information from our survey.

#### 4.4 Short job tenure

We have argued so far that after the opening of the economy, alleging that the rigid labour markets stopped their competitiveness, the private sector, taking advantage of the weaknesses of the regulatory-market capacity of the state, have advanced their preferences, flexibilizing the labour market, increasing the levels of informality and bringing about short job tenure and income insecurity. In this section, we shall present the extent to which the weaknesses of the regulatory-market capacity of the state have increased the levels of labour informality, which reduces the opportunities of the poor from obtaining sustained income in the labour market, leaving them economically insecure and in danger of falling into poverty again.

**Table 4.11 Poverty lines for urban areas<sup>77</sup>**

<b>Line of Poverty</b>	<b>Pesos 2008</b>	<b>Approximate in pounds sterling</b>
Poverty of Food	949.38	47.5
Poverty of Capabilities	1,164.41	58.2
Poverty of Assets	1,904.84	95.2

Source: CONEVAL: [www.coneval.gob.mx](http://www.coneval.gob.mx). Accessed: October 2010.

According to the poverty lines defined by the Mexican Technical Committee on Poverty Measurement, shown in Table 4.11, and in comparison with the salaries of the ex-recipients shown in Table 4.12, 38.4% of the ex-recipients had overcome poverty, 13.6% could satisfy their food, health and education needs whereas 21% (taking into account the unemployed) were still in poverty of food. The other 44.6% were still studying, which would mean that they have also crossed at least the first two poverty lines.

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<sup>77</sup> The poverty lines are supposed to be the per capita monthly income that a household should have in order to invest that amount of money to satisfy their basic needs. There are three different lines: 1. food poverty, which is related to the possibility of buying a determined minimum food basket with the income available if all were devoted to that; 2. poverty of capabilities, which is related to having an income high enough to buy the food basket of the first poverty line but also to invest in basic capabilities such as education and health; and 3. asset poverty, which is related to not having enough income to invest in goods and services considered as essential to have a decent way of living; among these we can include clothing, housing and transportation (CONEVAL: [www.coneval.gob.mx](http://www.coneval.gob.mx). Accessed March 2012).

**Table 4.12 Monthly wage of the ex-recipients**

<b>OCCUPATION</b>	<b>1000 OR LESS</b>	<b>2000 OR LESS</b>	<b>3000 OR LESS</b>	<b>4000 OR LESS</b>	<b>5000 OR LESS</b>	<b>6000 OR LESS</b>	<b>10000 OR LESS</b>	<b>NO ANSWER</b>	<b>TOTAL</b>
STUDENTS								95	95
CRAFT		6	2	0	1	1			10
HELPER/ ASSISTANT	7	8	22	19	4	1			61
CASHIER	1		6	3					10
LABOURER		1				1			2
UNEMPLOYED								62	62
NURSE	1	2	2		1				6
ENGINEER				1			1		2
JANITOR		1	2						3
INSTRUCTOR	1			2	1				4
WAITER				2					2
OWN BUSINESS	1	23	2	6		1			33
NANNY		1							1
WORKER MAN		2	2	7	3	1			15
CLERK			2		3	1			6
PRIVATE SECURITY				1	1				2
PUBLIC SERVANT		2	1		1	1	2		7
EMPLOYEE			1			1			2
TECHNICIAN			4	3		1	1		9
TELEMARKETER			2	4					6
PEDDLER		1							1
COUNTER SELLER	1	1	4	5	2				13
<b>TOTAL</b>	<b>12</b>	<b>48</b>	<b>52</b>	<b>53</b>	<b>17</b>	<b>9</b>	<b>4</b>	<b>157</b>	<b>352</b>
<b>%</b>	<b>3.4</b>	<b>13.6</b>	<b>14.8</b>	<b>15.1</b>	<b>4.8</b>	<b>2.6</b>	<b>1.1</b>	<b>44.6</b>	<b>100</b>

Source: Author with information from our survey.

However, as we can see in Tables 4.12 and 4.13, most of their jobs are not only low-qualified ones but also most of the ex-recipients had temporary or informal contracts, which put them in danger of falling into poverty again since by 2011, there was only one federal entity all over the country, Mexico City, which gives access for workers to unemployment insurance and, as we shall see in the next chapter, training and access to credit is scarce or limited. As a result, there is a very high level of labour mobility since workers are always changing jobs either because their contracts expire or because they are looking for something better paid and more stable. For instance, the number of temporary workers registered in IMSS by 2000 was 10%, by 2006 10.7% and by 2012 13.7%. The State of Mexico follows the same direction: in 2000 there was 10.3%, in 2006, 10.6% and in 2012 11.1% of the overall national figure.<sup>78</sup>

Table 4.13 shows that of the 100% ex-recipients who we interviewed, only 7.4% (26) had jobs with a formal stable contract, 20.5% (72) had jobs or occupations without written contracts, 17.4% (61) had temporary formal jobs, 17.6% (62 were unemployed) and the remaining 37.2% (131, mainly students) did not answer. Therefore the income of those without written contracts, those with temporary contracts, the unemployed and the micro-entrepreneurs (more than 60%) was unstable.<sup>79</sup> The sector that offered most of the formal contracts was the service sector. However, this is the sector where most of the ex-recipients without a written contract work as well.

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<sup>78</sup> Data obtained from IMSS through IFAI requested in 2012.

<sup>79</sup> We consider the micro-entrepreneurs as recipients without stable income because, as argued above, most of the micro-businesses in Mexico are informal and their average period of life is normally two years.

**Table 4.13 Profit sharing and contracts of the ex-recipients**

Profit sharing Type of contract	Yes		No			No answer	Total	%
	Formal	Formal temporary	Formal	Formal temporary	No written contract			
High-tech FJ	1	8	0	0	0	0	9	2.6
Manufacturing FJ	0	0	0	12	17	2	31	8.8
Services FJ			1	1	1		3	0.9
Federal government	0	0	1	2	0	0	3	0.9
Manufacturers LJ				1	2		3	0.9
Services LJ			20	30	22		72	20.5
Local government	0	0	3	7	2	0	12	3.4
Microenterprises	0	0	0	0	18	26	44	12.5
Informal	0	0	0	0	10	8	18	5.1
Unemployed	0	0	0	0	0	62	62	17.6
Students	0	0	0	0	0	95	95	28.0
Total	1	8	25	53	72	193	352	100
%	0.3	2.3	7.1	15.1	20.5	54.8	100.0	

Source: Author with information from our survey.

The situation for the ex-recipients is even less satisfactory when we take a look at their profit sharing, since most of the workers did not receive it, even though they had formal stable or formal temporary contracts, as Table 4.13 shows. Accordingly, when we asked the ex-recipients what was the most worrying issue about their working conditions, the majority of them (29.3%) answered that it was their unstable salary, especially those who were working in manufacturing, as Table 4.14 shows, where, as argued before, most of these enterprises are outsourced by bigger enterprises. The second most important worrying issue that they signalled and which actually was not one of the options that we gave but that they wrote in the 'other' option in question 15, was that there is no employment at all (20.7%).

In the same interview with the chief of the department of human resources of the company that manufactured automobile seats, she argued that due to the low salaries (600 pesos per week, around 30 pounds sterling) most of the workers were either elderly people who accepted the job because they have difficulties in joining the labour market due to their age, or youngsters who utilize the enterprise to acquire experience and they leave as soon as they find better employment. According to her, around 50% of the workers leave every year and most of them had fixed work or term contracts so that they can be made redundant whenever the enterprise wants to do so without having to pay a severance fee.

**Table 4.14 What is the most worrying issue about your working conditions?**

Type of firm	Inequality and abuse	None	There is no employment	Health risks	Unstable wages	Lack of social security	Temporary contracts	No answer	Total
High-tech FJ	2	2	1	0	3	0	2	0	9
Manufacturing FJ	4	3	1	2	18	1	2	0	31
Services FJ	2	0	0	0	1	0	0	0	3
Federal government	0	2	0	0	1	0	0	0	3
Manufacturers LJ	1	0	1	0	0	0	1	0	3
Services LJ	7	10	11	3	40	0	1	0	72
Local government	3	2	2	0	4	0	0	0	12
Microenterprises	7	7	8	1	16	3	2	0	44
Informal	0	1	6	1	8	0	2	0	18
Unemployed	6	0	43	2	10	1	0	0	62
Students	1	0	0	0	2	0	0	92	95
Total	33	27	73	9	103	5	10	92	352
%	9.4	7.7	20.7	2.6	29.3	1.4	2.9	26.1	100

Source: Author with information from our survey.

Table 4.15 shows, on the other hand, that almost half of the ex-recipients who we interviewed have had at least between one and three jobs since they finished high school when they were eighteen years old, and as they grow older the number of jobs that they have had grows, like the 23-year-olds, most of whom have had between four and six jobs. Notwithstanding, as Table 4.16 shows, most of the ex-recipients (40.1%) remained unemployed for less than three months. Moreover, even most of the unemployed answered that the maximum time that they remained unemployed was between three and six months.

**Table 4.15 How many jobs have you had?**

Age	1	2	3	4	5	6	No Answer	Total	%
18	19	12	2	0	0	0	4	37	10.5
19	22	21	14	0	0	0	21	78	22.2
20	9	13	22	2	0	0	22	68	19.3
21	11	9	11	9	5	5	13	63	17.9
22	3	3	10	8	5	3	7	39	11.1
23	5	3	6	13	14	13	13	67	19.0
Total	69	61	65	32	24	21	80	352	100
%	19.6	17.3	18.5	9.1	6.8	6.0	22.7	100	

Source: Author with information from our survey.

**Table 4.16 Maximum time unemployed**

What do you do?	.31	.60	1.00	1.6	2.00	2.60	3.00	3.60	4.00	4.60	5.60	Total	%
Students	0	0	0	0	0	0	0	0	0	0	0	95	27
Employed	95	27	21	5	4	0	1	0	1	0	0	154	43.8
Own business	19	5	2	1	4	0	2	0	0	0	0	33	9.4
Study and work	6	0	1	0	0	0	1	0	0	0	0	8	2.3
Unemployed	21	10	13	7	0	6	1	1	1	1	1	62	17.6
Total	141	42	37	13	8	6	5	1	2	1	1	352	100
%	40.1	11.9	10.5	3.7	2.3	1.7	1.4	0.3	0.6	0.3	0.3	100.0	

Source: Author with information from our survey.



The problem is that even though they can find new employment relatively quickly, some of those jobs also have different levels of informalization and some of them are completely informal. For instance, in our question 18 we asked the ex-recipients: 'If you are or have been an employee in complete informality (No contract, no kind of social security, no access to organizations that represent your interests), please indicate why you chose that kind of employment'; 49.7% had not worked informally (most of them students), 44.6% did it because they could not find formal employment, 0.3% because of finding a better wage, 0.9% because of the flexibility of time, and 4.5% to acquire experience. Therefore, more than 90% of the ex-recipients who were working or had worked at some point in complete informality did so because they had not found a different kind of job in which they could have more benefits.

**Table 4.17 Ex-recipients working in complete informality**

Occupation	Wage	Flexibility of time	Did not find formal employment	Have not worked informally	To acquire experience	Total
Students	0	0	0	95	0	95
Craft		2	6	1	1	10
Helper/ assistant	0	1	38	18	4	61
Cashier	0	0	8	2	0	10
Labourer	0	0	2	0	0	2
Unemployed	1	0	28	32	1	62
Nurse	0	0	4	0	2	6
Engineer	0	0	0	1	1	2
Janitor	0	0	1	2	0	3
Instructor	0	0	2	1	1	4
Waiter	0	0	2	0	0	2
Own business	0	0	30	3	0	33
Nanny	0	0	1	0	0	1
Worker man	0	0	5	8	2	15
Clerk	0	0	2	3	1	6
Private security	0	0	2	0	0	2
Public servant	0	0	5	2	0	7
Employee	0	0	1	1	0	2
Technician	0	0	5	2	2	9
Telemarketer	0	0	4	1	1	6
Peddler	0	0	1	0	0	1
Counter seller	0	0	10	3	0	13
Total	1	3	157	175	16	352
%	0.3	0.9	44.6	49.7	4.5	100.0

Source: Author with information from our survey.

## 4.5 Conclusions

In this chapter, we have shown the extent to which the weaknesses of the regulatory-market capacity of the Mexican state in the world of labour impedes the protection of the occupational rights of the ex-recipients of the *Oportunidades* programme and in this way, it reduces their opportunities to

obtain sustained income. More precisely, on the one hand, the weakly institutionalized bureaucratic apparatus in the world of labour prevents the organizations of the state from enforcing law in an impartial and impersonal way. As a consequence, the Mexican state has as a main priority protecting the interests of the private sector to avoid job destruction rather than protecting worker's rights. On the other hand, it impedes workers from having access to organizations that represent their interests, giving them a voice to bargain with the private sector and the organizations of the state itself to press for wider social rights that would allow them to improve their working conditions because it is believed that the new economic model does not need them. As a consequence, the weakness of the regulatory-market capacity of the state has brought about high levels of labour informalization and short job tenure, which, added to the denial of occupational rights such as training and active labour market policies brought about by the weakness of the fiscal capacity of the state, as we shall see in the next chapter, impede the *Oportunidades* programme from enabling the ex-recipients to obtain sustained income in the labour market to move out of poverty.

## CHAPTER 5

### ***OPORTUNIDADES*, THE LABOUR MARKET AND THE FISCAL CAPACITY OF THE STATE**

#### **Introduction**

In the previous chapter, we reviewed the extent to which the institutional weaknesses of the regulatory-market capacity of the Mexican state might impede the *Oportunidades* programme from achieving its main goal due to the high levels of short job tenure that those weaknesses have brought about. In Chapter 2, we argued that the high levels of short job tenure reinforced by the low skill levels of the population and the lack of active labour market policies impede the citizenry from obtaining sustained income. In this chapter, we shall review the extent to which the institutional weaknesses of the fiscal capacity of the state impede the *Oportunidades* programme from increasing the capabilities of the ex-recipients to obtain sustained income in the labour market to move out of poverty.

Mexico, as has already been explained, is a Federal Republic comprised of three levels of government: federal, state and municipal, and the institutional capacities of the local governments can affect the outcomes of the public policies carried out at the federal level even if they are not given direct responsibilities. Accordingly, we shall explore the extent to which the institutional weaknesses of the fiscal capacity of the Mexican state at its different levels might impede the *Oportunidades* programme from enabling the poor to obtain sustained income to move out of poverty. We argue that the federal level has tried to maintain its power over access to public services and

resources, which has impeded the improvement of the institutional and administrative capacities of the lower levels of government and consequently has made it difficult to use expenditure as a tool for alleviating poverty and in this way to justify greater tax collection.

This chapter is divided into three main sections. In the first section we explore the extent to which the institutional weakness of the fiscal capacity of the state impedes the increase of the skills of the ex-recipients of the *Oportunidades* programme that would allow them to improve their opportunities to obtain sustained income in the labour market. In the second section we shall show the extent to which the institutional weakness of the fiscal capacity of the state impedes the ex-recipients of the *Oportunidades* programme from accessing active labour market policies that would allow them to increase their opportunities to obtain sustained income. Section three presents the main conclusions of the chapter.

### **5.1 *Oportunidades* and access to formal education**

As argued in Chapter 2, the low levels of tax collection of the Mexican State have brought about a situation in which some important basic services that can have an impact on alleviating poverty, such as education, are underfunded. Like most Latin American countries, in the last three decades Mexico has carried out an extensive process of decentralization of its social policies in order to improve the effectiveness of the allocation of resources. This is strongly backed up by the idea that the local governments are closer to their citizens and know their preferences and necessities better than the federal government, and therefore can meet their needs more effectively.

However, in order to avoid losing their control over access to public resources, the federal government has transferred responsibilities to lower levels of government without devolving policy-making power and fiscal resources, which impedes local governments from improving their administrative and institutional capacities, making it difficult to use expenditure as a tool for alleviating poverty and in this way to justify greater tax collection. As argued above, in Mexico the federal government collects around 90% of the whole revenue of the Mexican state and transfers around 48% of that revenue to the states and municipalities, which represents for them around around 90% of their budget. The resources are transferred through two items: Item 33 Federal Contributions for States and Municipalities (*Aportaciones Federales para Entidades Federativas y Municipios* or simply *Ramo 33* in Spanish) and Item 28 Federal Participations (*Participaciones Federales* in Spanish). The former are conditional grants which have as their main objectives education, health, public safety and social infrastructure. The latter, on the other hand, are unconditional grants, which were originally revenues of states and municipalities, whose collection was delegated to the federal government.

In order for states and municipalities to be entitled to receive these grants, they must adhere to the National System of Fiscal Coordination. The examination of all the grants of the two items is out of the scope of this thesis. In this section, we shall focus, on the one hand, on the process of the decentralization of education, which for our purposes is essential and, on the other hand, later in the chapter we shall discuss the way in which the federal level has impeded the State of Mexico and Toluca from having a major participation in the fiscal system.

### 5.1.1 The decentralization of education

As argued in Chapter 2, the decentralization of social policies was part of the structural reforms pushed by the World Bank and the IMF during the late 1980s with the intention of both reducing the size of the state and its intervention in the economy and of improving the effectiveness of the allocation of resources. However, unlike Brazil or Argentina, where the processes of decentralization were pushed by sub-national actors after the introduction of electoral democracy, in Mexico it was a top-down process by the national executive carried out before the implementation of electoral democracy only to be released by the pressure of the 1980s debt crisis and the loss of confidence due to electoral fraud during that decade (Falleti 2010, 188). As a matter of fact, some argue, for instance, that when Item 33 was created, what really happened was a re-centralization of the expenditures since not only was policy-making still dependent on the federal level, but also the expenditures of the local governments have to be in accordance with the priorities of the federal level (Pliego 2010, 11).

The first reformed social sector was education, which was seen as “a gigantic personnel department” (Falleti *op. cit.*, 196).<sup>80</sup> The process was initiated in 1973 under the rule of President Luis Echeverría (1970-1976) as a process of deconcentration rather than of decentralization, since only an office of the Federal Ministry of Education with the purpose of dealing with local issues was

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<sup>80</sup> According to Falleti, by 1980 the education sector had more employees than any other Ministry, around 900,000 (2010, 190).

created in every state.<sup>81</sup> However, it was not until the period of President Carlos Salinas de Gortari (1988-1994) that the decentralization of education was possible with the aim of regaining control of the bureaucratic apparatus and educational policy-making (*ibid.*, 190).<sup>82</sup>

In 1993 Salinas de Gortari created Item 25, headed Contributions to Basic Education in States (*Aportaciones para Educación Básica en los Estados* in Spanish) in order to carry out the process of decentralization.<sup>83</sup> In the broadest terms, the agreement transferred the administration of the human, material and financial resources to the sub-national governments but kept the responsibility for policy-making (curriculum design, educational plans, production of school textbooks, teacher training, evaluation and so on).<sup>84</sup> However, although the federal government succeeded in raising the education budget to reach 5.2% of GDP in 1994, the highest in the country's history at that time, its use was extremely discretionary since there was direct negotiation with each state over the proportion of the national budget they would receive.

As explained above, the 1995 financial crisis brought about the loss of PRI in 1997 of the majority in the Congress for the first time. In this context,

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<sup>81</sup> The decentralization of the health sector, on the other hand, started in 1983 but the agreement was finally signed in 1996.

<sup>82</sup> The main obstacle that the state faced to achieving the so-called decentralization of education was the teachers' union (SNTE – acronym in Spanish), which had been constraining it due to the fear of losing its bargaining power. The state, still under the rule of the PRI political party, on the other hand, could not afford to lose the electoral support of such a powerful union, especially after the debt crisis of 1982 when its legitimacy was severely questioned. Accordingly, when the process of decentralization was finally agreed between the executive and the teachers' union in 1992, the state had to concede many benefits, among which it was stated that, in spite of the decentralization process, the teachers' union would not be divided or lose its unity (Falleti 2010, 202-203).

<sup>83</sup> Before the creation of item 25, the state concentrated its spending mainly on Item 11, under which the Ministry of Education centralized all the public spending related to this field all over the country. Since 1997-1998, when the process of the decentralization of social spending was finally achieved, Item 25 was renamed and now transfers resources only to Mexico City.

<sup>84</sup> According to Rabell, around 90% is spent on the salaries of the teachers, so the states administer only the other 10% (2010, 109).



under the rule of Ernesto Zedillo (1994-2000), the decentralization of revenues was pushed further and was materialized in the creation of Item 33 in 1997-1998. However, the reform did not include responsibility for policy-making. The grants created exclusively for education are the Fund for Basic and Normal Education (FAEB - *Fondo de Aportaciones para la Educación Básica y Normal* in Spanish), the Fund for Technological and Adult Education (FAETA - *Fondo de Aportaciones para la Educación Tecnológica y de Adultos* in Spanish) and the Fund of Multiple Contributions (FAM - *Fondo de Aportaciones Múltiples* in Spanish). The outcomes of the process of the decentralization of education have been generally contested. For instance, Scott argued that the progressivity that public spending on education has reached in recent years is really a deceptive progressivity since those who can pay for a service in the private market do not use the public service, which is normally seen as being of lower quality (2002, 7). Nonetheless, there is no doubt that the reform gave certainty to public spending and that the proportion of the emerging labour force with elementary and secondary education was greatly expanded.

However, the difference in the levels of education between the rich and the poor has been widened because the reform of 1997 covered only basic education, which became the priority of the government before the disappointing results of the structural reforms, allowing the private sector to have a bigger role in the provision of this service at high school and university levels.<sup>85</sup> In 1993, the state gave private and public institutions equal access to state subsidies for higher education and authorized public universities to charge

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<sup>85</sup> In 2011, high school education was upgraded to become part of basic education. This means at least two things: 1. the state now has to ensure a broader coverage of high school because basic education is considered by the Mexican Constitution as compulsory and; 2. the resources allocated to this level of education will be delivered through Item 33.

students for tuition. As a result, the growth of educational spending coming from the private sector rose from 8.1% in 1990 to 23.1% in 2005, while private universities accounted for 31.7% of all university enrollments. Moreover, according to Hernández, by 1970, 22% of all the student population in higher education was in private universities and by 1994 it had increased to 32%, and to 40% at postgraduate level (2005, 39). In contrast, Table 5.1 shows that currently public investment in higher education has reached a rate of only around one out of every five youngsters.

**Table 5.1 Coverage of higher education level based on the age groups for undergraduate studies, 1970-2004.**

Year	Men	Women	Total	Enrolment	Coverage
1970-1971	1,930,300	2,102,041	4,032,341	271,275	6.7%
1990-1991	3,738,128	4,091,035	7,829,163	1,206,128	15.4%
1995-1996	4,538,686	4,858,738	9,397,424	1,455,082	15.5%
2000-2001	5,002,446	4,949,263	9,951,709	1,918,948	19.3%
2004-2005	5,143,744	5,082,636	10,226,380	2,277,347	22.3%

Source: Hernández op. cit., 38.

The centralization of the resources of higher education has also resulted in universities carrying out a discretionary negotiation with the federation and the states for the allocation of resources, for which, in addition, there are no clear rules. By 2010, for instance, higher public education was comprised of six main sub-systems: 1. federal universities, 2. state public universities, 3. technological universities, 4. polytechnic universities, 5. state public universities with solidarity support, and 6. other universities.<sup>86</sup> For institutions in sub-systems 1 to 3,

<sup>86</sup> These kinds of universities are targeted at specific groups which are being encouraged to keep studying, such as the intercultural universities, whose main goal is to promote the formation of professionals committed to economic, social and cultural development, particularly the indigenous peoples of the country and around the world.

finance is provided according to a scheme of ordinary and extra-ordinary subsidies. In the former, a similar amount is assigned every year, adding only the increases in salaries and the operating expenses. The latter is comprised of conditional grants with specific goals that could go from improving the quality and infrastructure of higher education institutions to reducing their deficits in order to increase enrolment in higher education. In recent years, conditional grants have increased in number and importance (in 2000 there were only four of them and by 2012 there were eighteen). However, the amount delivered by them represents no more than 25% of the universities' resources (Tuirán 2011, 18). For institutions in sub-systems 4 to 6, the federal government agrees the support allocated each year with the institution and the government of the state concerned (SEP 2006, 2). This has meant that sometimes investment in higher education is used politically to benefit some of the states that are governed by the same political party as the federal government, especially because students at university level are at the minimum age to vote (Hernández *op. cit.*, 45; Martínez 2007, 23).

Furthermore, as previously argued, one of the main problems that impede the effectiveness of the decentralization of public services is that fiscal resources have not been completely devolved to the local governments. As for the financing of higher education, the federal level provides around 80%, and the state level barely the other 20% (Hernández *op. cit.*, 28-36). During our fieldwork, we had the opportunity to undertake different interviews with people from the local Ministry of Finance and from the Institute of Treasury of the State of Mexico. Since 2006, the State of Mexico has been able to almost double the collection of taxes of its own resources. When we asked the interviewees what

had been the main changes that had allowed them to improve the tax collection of their own resources, especially of payroll tax, which is one of the most important taxes that states have, they highlighted the following factors. 1. Administrative simplification of the payment procedures. In the last decade, the three levels of government have undertaken an extensive simplification of the procedures to pay, which makes it easier and faster for the citizen to pay and for the state to collect. At the same time it gives transparency to the tax collection process, which, according to them, has increased people's confidence in tax collection; and 2. strengthening the coercive capabilities of the state. Now that tax payment is easier and faster, the state can better justify the imposition of fines for not paying taxes on time.

However, state level revenues still represent less than 10% of their whole resources. Speaking of the main constraints that do not allow the states to increase their revenues, we found that the National System of Fiscal Coordination (NSFC), which was created in the 1980s, is outdated and poorly regulated, which favours the centralization of resources by the federal level. For instance, according to the interviewees, when the NSFC was created, the states did not have the institutional and administrative capacities to collect taxes effectively and this was the reason why the states agreed to delegate the collection of most of them to the federal government. However, they claimed that nowadays the state level has enough technology and information to collect some of the taxes in a more effective way than the federation itself. They gave as an example the collection of taxes from micro-enterprises that had been agreed would be collected by the states since 2009 in order to improve the effectiveness of the tax collection and, at least in the case of the State of

Mexico, they had been able to raise the collection of those taxes.<sup>87</sup> Moreover, in the case of cellular or car ownership taxes, which imply a high political cost, which is the reason why they were avoided by most of the states, sacrificing an important potential revenue stream, our interviewees argued that the problem is that they are not properly regulated in the Fiscal Coordination Law. That is, the amounts of the taxes that have to be charged and the target population are not specified in the Law because it is the federal government itself (both legislative and executive powers) which are avoiding dealing with the political cost to enact more taxes, even though they were collected at the state level.

This highly discretionary and centralized scheme of social spending has brought about a situation in which public spending on higher education is not only insufficient but it is also regressive, used more by high-income people than low-income people. The Mexican federal income law requires the yearly publication of the results of a study of the incidence of spending and taxes. According to the results of the publication for 2010, although total spending on education was mildly progressive, that is, it was mainly used by low-income people rather than high-income people, spending on high school education was neutral in urban zones and only progressive in rural areas, as Table 5.2 shows. At the level of technical education, the concentration ratio showed a regressive national expenditure, and it was progressive only in rural areas. On the other hand, spending on higher education was regressive in both urban and rural

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<sup>87</sup> Some may argue that not all the states could collect some taxes in a more effective way than the federation because not all of them have the same institutional and administrative capacities as the state of Mexico. However, the point that we want to highlight is precisely that in order to improve the progressiveness of the fiscal capacity of the Mexican state it is necessary to improve the institutional capacities of the local governments so that they have a major participation in the NSFC system

areas, and 62.8% of total expenditure was concentrated in 20% of the population with higher incomes.

**Table 5.2 Public spending distribution on education in Mexico, 2010.**

Decile	Total	Preprimary	Primary	Secondary	Bachelor	Technical	Higher
1	12.9	18.5	18.3	13.0	6.3	2.0	0.0
2	13.5	17.0	16.3	15.0	10.3	5.4	0.8
3	12.9	14.4	14.6	15.1	11.0	6.6	0.4
4	12.5	13.0	13.7	12.4	13.0	9.9	2.6
5	11.5	11.1	10.9	12.3	13.3	10.5	3.9
6	9.9	8.0	8.6	9.8	13.0	12.3	5.6
7	8.8	6.9	6.9	8.4	11.9	13.1	9.1
8	7.6	5.7	5.4	6.6	9.9	13.5	14.8
9	6.5	3.9	3.8	5.0	7.1	15.5	25.8
10	3.9	1.5	1.4	2.4	4.1	11.1	37.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Urban	75.5	70.7	70.3	72.9	81.1	90.2	96.0
Rural	24.5	29.3	29.7	27.1	18.9	9.8	4.0
Concentration coefficient							
National	-0.17	-0.31	-0.31	-0.22	-0.05	0.20	0.60
Urban	-0.06	-0.20	-0.20	-0.12	0.02	0.23	0.60
Rural	-0.50	-0.58	-0.57	-0.50	-0.34	-0.12	0.76
Source: SHCP (2012, 41)							

Accordingly, as Table 5.3 shows, only 32.7% of the ex-recipients (66 female and 49 male) who we interviewed continued studying to BA level and 67.3% (237 ex-recipients, 143 women and 94 men) did not do so. Moreover, of the 32.7% who were undertaking a BA, only 4.3% studied or were studying for a BSc in sciences or engineering, and 99% of all the ex-recipients who were unemployed or were self-employed did not study for a BA. Furthermore, out of those who had their own business, 9.4% (13 women and 20 men), only one of them was studying for a BA and of those who were unemployed, 17.6% (50 women and 12 men), none of them was studying or had studied for a BA.

**Table 5.3 Education level and labour status of the ex-recipients**

Sex	Education level	Student	Employed	Own business	Study and work	Unemployed	Total
Female	Standard high school	0	39	5	2	29	75
	Technical high school	0	40	8	1	19	68
	Finished BA	0	2	0	0	0	2
	Studying BA	54	1	0	1	0	56
	Studying BA in engineering	3	0	0	0	0	3
	Studying BA in sciences	1	0	0	0	0	1
	Degree truncated	0	2	0	0	2	4
	Total	58	84	13	4	50	209
Male	Standard high school	0	32	10	0	9	51
	Technical high school	0	32	9	0	2	43
	Finished BA	0	1	0	0	0	1
	Studying BA	28	0	1	4	0	33
	Studying BA in engineering	8	1	0	0	0	9
	Studying BA in sciences	1	0	0	0	0	1
	Engineering finished	0	1	0	0	0	1
	Degree truncated	0	3	0	0	1	4
	Total	37	70	20	4	12	143

Source: Author with information from our survey.

Likewise, when we asked the ex-recipients in our question 19 ‘What is the main constraint that has hampered you from obtaining sustained employment’, among the 180 (51%) ex-recipients who did not have a contract, were unemployed or had a temporary contract but no access to social security, the most recurrent answer was that there were no jobs at all (69), whereas the second most recurrent answers were the lack of experience (41) and the lack of a BA (41). Only very few of them mentioned the lack of training or maternity leave and even the self-employed answered accordingly, admitting that they

had to employ themselves as a result of these constraints, as Table 5.4 shows.<sup>88</sup>

**Table 5.4 Main constraints that have hampered the ex-recipients from obtaining sustained employment**

Access to social security services	What is the main constraint that has hampered you from obtaining sustained employment?	Student	Employed	Own business	Work and study	Unemployed	Total
Yes	Lack of experience		30		1		31
	Lack of training		1		0		1
	Maternity		1		0		1
	None		18		0		18
	There are no jobs		11		1		12
	Lack of BA		13		1		14
No	Lack of experience		18	9	0	14	41
	Lack of training		4	0	0	2	6
	Maternity leave		3	0	0	7	10
	None		6	7	0	0	13
	There are no jobs		28	9	3	29	69
	Lack of BA		21	8	2	10	41
Total		95	154	33	8	62	352

Source: Author with information from our survey.

The situation regarding high school education, on the other hand, is even worse. Not only was the allocation of resources for this level discretionary, as for higher education, at least till 2011, when it was upgraded to become part of basic education, but also, despite the fact that the high school level has the largest drop across the education system and the lowest terminal efficiency, it is the level that had historically suffered the most from a lack of financial resources, as Table 5.5 shows.

<sup>88</sup> We have left the students out of these figures because most of them had never worked so they did not have experience of looking for a job.

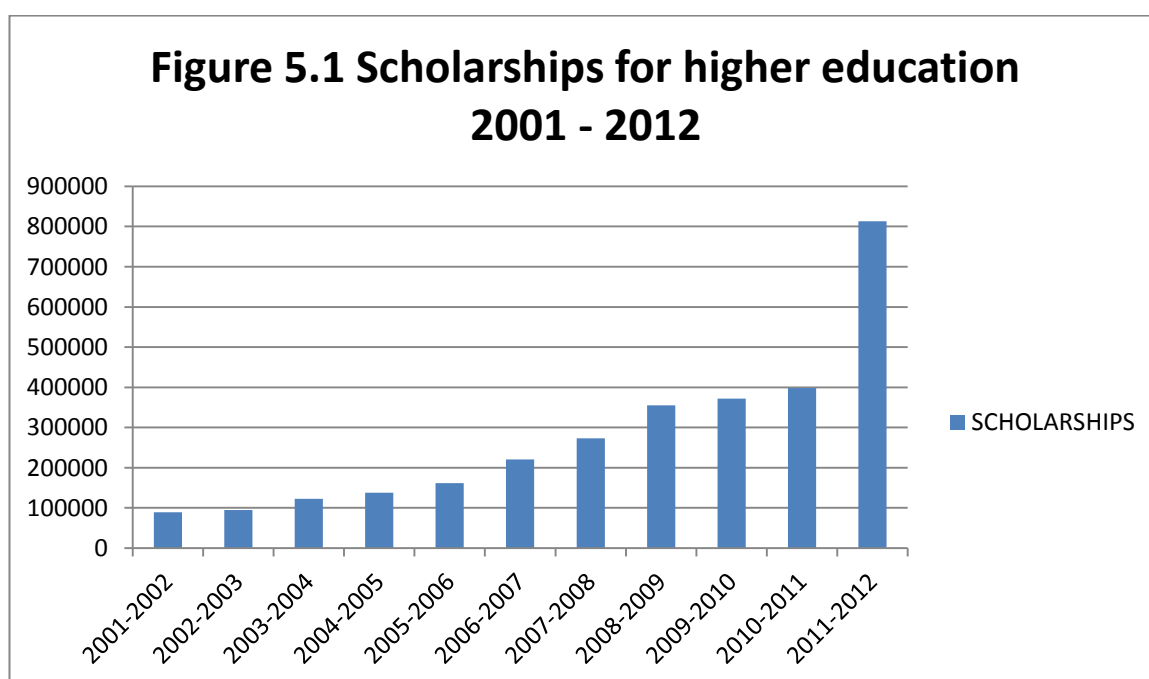


**Table 5.5 Evolution and structure of education spending in Mexico, 2004-2010.**

Concept	Amount (Pesos)				Percentage share of total			
	2004	2006	2008	2010	2004	2006	2008	2010
Total	391,930	417,528	452,504	456,643	43.1	41.6	40.2	38.1
Basic	267,594	286,659	306,093	299,482	29.4	28.5	27.2	25.0
High School	42,603	44,716	46,047	48,207	4.7	4.5	4.1	4.0
Higher Education	56,664	58,499	71,385	76,951	6.2	5.8	6.3	6.4

Source: SHCP (2012, 36)

Accordingly, the main constraint that 52.5% of the ex-recipients had found to advancing to the BA level was the lack of financial resources. To the question 'What has been the main constraint that has impeded you from continuing studying to the BA level', 33.2% answered that they could not do so because of a lack of financial resources, 19.3% replied that they had not passed the exam to study at a public university, and only the remaining 13.4% did not want to continue studying.



Source: [www.sep.gob.mx](http://www.sep.gob.mx). Accessed: October 2012.

As Figure 5.1 shows, in recent years the federal government has increased the number of scholarships awarded.<sup>89</sup> However, as can be seen in Table 5.6, it was the middle-income population that obtained most of the scholarships in urban zones, whereas they are progressive only in rural areas. The distribution of private scholarships, on the other hand, is completely regressive. The only educational grants that are highly progressive are the ones delivered through the *Oportunidades* programme, where resources are concentrated in the first three income deciles.

**Table 5.6 Distribution of expenditure on scholarships, 2010**

Decile	Total	Public Scholarships			Private Scholarships	
		<i>Oportunidades</i>	Public Schools	Total		
I	20.9	27.5	4.7	23.9	0.4	
II	17.4	21.6	10.5	19.8	1.6	
III	13.6	16.2	9.7	15.2	3.0	
IV	12.3	13.8	8.8	13.0	8.1	
V	9.6	10.1	10.4	10.1	5.9	
VI	6.5	5.4	11.0	6.3	7.5	
VII	5.4	3.3	13.3	4.9	8.8	
VIII	4.8	1.2	13.4	3.1	15.8	
IX	4.9	0.7	10.1	2.2	23.6	
X	4.6	0.3	8.0	1.5	25.3	
Total	100.0	100.0	100.0	100.0	100.0	
Urban	51.4	37.2	84.3	44.8	96.5	
Rural	48.6	62.8	15.7	55.2	3.5	
Concentration coefficient						
National		-0.30	-0.50	0.06	-0.41	0.45
Urban		-0.06	-0.37	0.11	-0.22	0.46
Rural		-0.56	-0.58	-0.21	-0.57	-0.03

Source: SHCP (2012, 39)

However, the biggest problem at this level is that it is here where the weak correlation between the skills acquired through formal education and those required by private firms reaches its highest point. Currently, there are

<sup>89</sup> During 2007–2012 the federal government granted 416,000 scholarships among the different programmes (the *Programa Nacional de Becas* (PRONABES), the *Programa de Becas de Apoyo a la Práctica Intensiva y al Servicio Social* (PROBAPISS), the *Programa de Fortalecimiento de Becas para la Educación Superior*, and the *Programa de Becas Universitarias*).

three types of upper secondary or high school education: 1. the general baccalaureate, of which the main purpose is to prepare students to enter institutions of higher education and which currently covers around 61% of all the students; 2. technological high school, which provides training in specialist fields such as the industrial, agricultural, fishing or forestry sectors so that students can either join the labour market just after finishing or continue on to higher universities; this educational model represents around 30% of total enrolment; and 3. the technical high school, which is distinguished from the other two models because it seeks to train students specifically to join the labour market, and currently covers around the 9% of the total enrollment (Santos & Delgado 2011, 28).

Although the classification might seem to be very simple and straightforward, there are around 200 programmes of study, most of them unrelated to each other and without any possibility of being revalidated since there are no links or communication between institutions.<sup>90</sup> Accordingly, Table 5.7 shows that there is no real difference between the employment of those ex-recipients who studied at high school and those who studied at technical or technological high school. This is a very interesting finding since it would suggest that either due to the lack of employment the ex-recipients have to accept whatever job is available, or that the specialization through which the ex-recipients who studied either in a technical or technological high school go is not making any difference in giving them the necessary skills that firms demand. Another important point to highlight is that most of the ex-recipients who had finished only the high school level were mainly working in the service sector,

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<sup>90</sup> See SEP [www.sep.gob.mx](http://www.sep.gob.mx) accessed: April 2011.

which, as we argued above, is the economic sector that mostly offers low-qualified jobs, and there were no ex-recipients who had finished the BA level working in that sector. The situation gets even worse when we look at the types of job; there was only one high-qualified job among the employees of private firms (one engineer) and the remaining jobs are all low-qualified.

During our fieldwork, when we asked the person we interviewed who was part of the automotive cluster that was due to be formed in the State of Mexico about the constraints that the members of the cluster, especially the private sector, had found in relation to the correlation between the skills of the labour available for hire and what the firms needed, he commented that it was so weak that a high investment to train every worker that the firms hire is unavoidable. According to him, on average, every one of the three automotive firms (MNCs) that were part of the cluster spent around 2000 dollars on every worker to have them trained. He also stated that, in an effort to improve this situation, the universities that are situated in the State of Mexico had been invited to join the cluster. However, and despite the fact that the universities' representatives were very committed to helping, nothing could be done because the design of the programmes is the responsibility of the Federal Ministry of Education. This is the case even for those programmes in universities which are financially dependent on the states.

**Table 5.7 Employment and level of education of the ex-recipients**

Sector	Current employment	High school	Technical/technological high school	Finished BA	Studying BA	Studying engineering	Degree truncated	Engineering finished	Total	%
High-tech	Helper/assistant	0	4	1	2	0			7	2.0
	Engineer	0	0	0	0	1			1	0.3
	Worker men	1	0	0	0	0			1	0.3
Manufacturing	Helper/assistant	7	10					0	17	4.8
	Engineer	0	0					1	1	0.3
	Worker men	7	5					0	12	3.4
	Clerk	1	0					0	1	0.3
	Technician	0	1					0	1	0.3
	Security/ business	1	1						2	0.6
Service sector	Helper/assistant	21	13		1		2		37	10.5
	Cashier	6	4		0		0		10	2.8
	Nurse	1	0		1		0		2	0.6
	Instructor	0	2		1		0		3	0.9
	Worker men	2	0		0		0		2	0.6
	Clerk	3	2		0		0		5	1.4
	Craft/labourer	8	10		1		1		20	5.7
	Technician	0	8		0		0		8	2.3
	Own business	17	14		0		1		32	9.1
	Informal	10	7		1		0		18	5.1
Government	Nurse	0	3	0			0		3	0.9
	Janitor	0	2	0			0		2	0.6
	Instructor/craft	0	2	0			0		2	0.6
	Public servant	2	2	2			1		7	2.0
	Private security	0	1	0			0		1	0.3

Source: Author with information from our survey.

What is more, when we asked the ex-recipients in question 21 whether they considered that the education that they had received with the *Oportunidades* programme would allow them to acquire the necessary skills and capabilities to obtain sustained employment or generate sustained income according to their salary expectations, 87% of the ex-recipients answered 'yes', even most of the unemployed. In this sense, they believed that they were educated enough to compete for a job in the labour market. However, as we have seen, most of the ex-recipients have low qualified jobs with poor salaries. Moreover, when we asked them in questions 22 and 23 'Do you invest your own resources to acquire more skills that allow you to obtain sustained employment or generate sustained income? YES/NO' and 'If you answered NO to the last question please highlight the main reason', more than half of the ex-recipients (56%) answered YES to question 22. However, of those that answered YES, 27% were studying in the higher education level and only 29% were or had been working. Of those that answered NO (44%), 27.8% answered that it was because they did not have enough economic resources to invest and 15.6% answered that they preferred to wait to be trained by firms, especially those who were working in the service and manufacturing sectors, as Table 5.8 shows. This would suggest that the high levels of short job tenure and weak correlation between the skills acquired in the formal education through the *Oportunidades* programme and those needed in the labour market disincentive the ex-recipients from investing in acquiring new specific skills and/or force them to wait to be trained by firms.

**Table 5.8 Investment of the ex-recipients to acquire new skills**

Invest your own resources	Type of firm	Wait to be trained by firms	Lack of economic resources	No answer	Total	%
Yes	High-tech			3	3	0.9
	Manufacturing			14	14	4
	Services			30	30	8.5
	Government			9	9	2.6
	Microenterprise			18	18	5.1
	Informal			8	8	2.3
	Unemployment			20	20	5.7
	Student			95	95	27
	Total			197	197	56
No	High-tech	5	1	0	6	1.7
	Manufacturing	8	12	0	20	5.7
	Services	23	22	0	45	12.8
	Government	4	2	0	6	1.7
	Microenterprise	6	20	0	26	7.4
	Informal	4	6	0	10	2.8
	Unemployment	5	35	2	42	11.9
	Student	0	0	0	0	0
	Total	55	98	2	155	44
	%	15.6	27.8	0.6	44	

Source: Author with information from our survey.

As can be seen, the regressiveness of public spending impedes the ex-recipients of the *Oportunidades* programme from accessing the educational levels that would allow them to increase their capabilities to obtain sustained income in the labour market. Moreover, as far as the *Oportunidades* programme's goal is concerned, the weak correlation between the skills acquired through the education received through the programme and those needed by the private firms is perhaps the main impediment to the ex-recipients obtaining a sustained income in the labour market as far as education is concerned. An important question then is what is the state doing to help those

poor who cannot keep studying and/or those who are unemployed to obtain sustained income in the labour market?

## **5.2 *Oportunidades* and its linkages to active labour market policies**

### **5.2.1 Training policies**

As has already been argued, the high levels of poverty and socio-economic inequality brought about by the structural reforms initiated in the early 1980s put pressure on political leaders in Latin America to introduce, in the early 1990s, Conditional Cash Transfer programmes (CCTs) such as *Oportunidades*. In Brazil, as previously stated, the success of *Bolsa Familia* has been the result of the strengthening of its institutional capacities, which allowed the increase of the state's revenue collection and its social spending to tackle unemployment and the increasing informalization of labour, investing in active labour market policies that have complemented the programme.

In Mexico, on the other hand, the social and economic policies have normally worked on their own. As was explained in Chapter 2, Mexico introduced the first Conditional Cash Transfer programmes in 1997 under the name of *PROGRESA*. However, it was not until the late 2000s that it began to be officially linked to economic policies. As argued above, the Mexican president Felipe Calderón Hinojosa (2006–2012) was the first president to make an effort to link, officially, the *Oportunidades* programme to the labour market policies directed at the general population. In 2011, he created the web-site known as *Vas con Oportunidades* whose main purpose is to let ex-recipients know about the labour market policies designed by the Federal Ministry of



Labour (STPS – *Secretaría del Trabajo y Previsión Social* in Spanish), the Ministry of Economy (SE - *Secretaría de Economía* in Spanish) and the educational offer of the Ministry of Education (SEP – *Secretaría de Educación Pública* in Spanish).<sup>91</sup> In addition, he made it an official requirement that in order to be able to apply for a grant of *FONAES*, a fund that provides subsidies so that the poor can start up a business, applicants have to prove that they belong to a social development programme.

As we have seen, most of the ex-recipients worked in the service or the manufacturing sectors, where there is normally no training provided by employers. Table 5.9 shows that 39.2% of the ex-recipients did not receive training, and especially in the service sector, where most of the ex-recipients worked, it is mainly non-existent, 47.7% (mainly students and unemployed) did not answer and only 13.1% stated that they received training in their workplaces. As argued in the previous sections, the ex-recipients who were already working preferred to wait to be trained by firms rather than investing in upgrading their skills mainly due to the short job tenure and the weak correlation between skills acquired in formal education and the skills needed in the labour market. An important question then is whether the training policies of the Mexican state are helping the ex-recipients to obtain sustained income in the labour market.

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<sup>91</sup> *VAS con Oportunidades* was designed by a consultant group whose finance was provided by the World Bank and was launched on 25 April 2011 with the main purpose of serving as a bridge between the recipients and the educative and labour market offer.

**Table 5.9 Types of firms that provide training**

Type of firm	Yes	No	No answer	Total	%
High-tech	6	3	0	9	2.56
Manufacturers	22	12	0	34	9.7
Services	12	63	0	75	21.3
Government	5	10	0	15	4.26
Microenterprises	0	35	9	44	12.5
Informal	1	15	2	18	5.1
Unemployment	0	0	62	62	17.6
No answer	0	0	95	95	27
Total	46	138	168	352	100
%	13.1	39.2	47.7	100.0	

Source: Author with information from our survey.

At the time that we were carrying out the fieldwork, there were different training programmes offered by the federal and the State of Mexico governments which are the two levels of government in charge of providing training services for the population in Mexico. At the federal level, there were two main programmes: 1. instructor training (FAM - *Formación de Agentes Multiplicadores*) in the workplace, where they just trained a worker in pedagogy so that he can train other workers in the area or field in which he is most experienced, and 2. PROCADIST, a distance-learning online programme. However, due to the lack of resources, each programme was run by only six people for the whole country, of which only the people involved in FAM belonged to the civil service system.<sup>92</sup>

At the state level, there was one main training policy that comprised two elements: mixed training and training in the workplace. In mixed training, the

<sup>92</sup> In addition, the Ministry of Education offers online and in the workplace industrial training courses through some of the technical high schools, called CECATI (*Centros de formación para el trabajo industrial* in Spanish).

company provides the instructor and stationery and the state government provides a grant of from one to three minimum salaries for a minimum of six workers.<sup>93</sup> The companies can participate as many times as they want as long as they show that the trained workers remained in their employment for at least six months. For training in the workplace, on the other hand, the state office pays the minimum salary and the entrepreneur trains the workers.<sup>94</sup> The problem is that these policies are only available for companies which are registered with the Ministry of Treasury (SHCP), and as we have argued before, around 90% of the medium, small and micro-enterprises are informal so these programmes have a very low impact on increasing the skills levels of the population.

As we can see, there is very limited access to training services. Accordingly, when we interviewed the chief of Human Resources of an MNC specializing in the manufacture of a detergent, he told us that when the firm has a low-qualification job, it sends details of the vacancy to the local government offices, but that when it has a highly-qualified position that needs to be filled, it draws upon specialized private employment or outsourcing offices. Moreover, in response to questions 24 and 25 ('If you have been part of a government employment or training programme as a strategy for finding a job, please tick or mention the programme/s and indicate whether it helped you to obtain sustained employment or generate sustained income according to your capabilities, experience and wage expectations or not' and 'If it did not help you to obtain sustained employment or generate sustained income according to

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<sup>93</sup> The local Ministry of Labour requires a minimum of six workers but there is no limit to the number of workers that can be enrolled in the programme.

<sup>94</sup> A minimum salary is around seven pounds sterling per eight hours of work.

your capabilities, experience and wage expectations, or you did not use it, please indicate why') only 24.4% of all the ex-recipients had used or been part of a government employment or training office or service, of whom only 4.5% were successful in finding sustained employment. The 75.6% of the ex-recipients who did not use any kind of governmental website or programme for training answered that they did not know about them, not even *VAS con Oportunidades* (41%), which was supposed to be the link between the ex-recipients of the *Oportunidades* programme and the labour market policies of the federal government, and that it was faster to look for a job on their own (34.6%).

The only federal programme used was the website of the National Employment Service ([www.empleo.gob.mx](http://www.empleo.gob.mx)), which only offers information about possible vacant places in some industries, and no-one had used any federal training programme or service. The fourteen (3.9%) ex-recipients who had used the website of the National Employment Service argued that it did not help them to obtain a job, because eight ex-recipients said that the jobs offered on the website were only temporary and low-skilled ones, and the other six reported that it was faster to look for a job on their own. As for the state-level facilities, none of the ex-recipients used any of their services.

At the municipal level in Toluca, on the other hand, there were no training policies at all. The employment office works only as a bank of information, letting people attend and giving them information about the vacancies that the firms established in that municipality have, or organizing employment fairs where the employment offices invite the private sector and civil society to gather

and offer their vacancies to the general public. Curiously, the sixteen (4.5%) ex-recipients who had succeeded in finding sustained employment did so after attending one of these events. Moreover, the other 16.9% of ex-recipients who had used an employment or programme service but had not succeeded in finding employment did use the municipal employment services as well, which would suggest that since the municipal level is the closest to the citizenry, it really makes sense to have a process of decentralization.

However, when we interviewed the head of the employment office in Toluca, he told us that the main problems that they found with offering training policies were the lack of financial resources and also the employment law (LFT). The LFT states that the training service can be carried out at the federal and state level only, since those levels of government are in charge of providing the formal public education whose infrastructure is normally used to organize the events. However, as commented above, none of the ex-recipients attended the state-level facilities looking for training. As for the lack of financial resources, as argued above, in 1983, Article 115 of the constitution was reformed specifically to strengthen the political and fiscal roles of the municipalities, specifying the public services which municipalities would be in charge of delivering and charging for.<sup>95</sup> This reform also listed the income sources of municipal governments (taxes, service fees, and transfers from the federal government), especially the property taxes, which is the most important tax that municipalities have. The problem is that municipalities also have an important dependency on central transfers – between 80% and 90% of their total revenue

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<sup>95</sup> The public services were water delivery; street lighting and cleaning; public squares, markets, and gardens; and public security and transit.

– and this is the reason why the revenue that they collect and can freely decide on which sector to spend it is very low.

After interviewing the head of the revenue office of Toluca and the head of the Institute of Treasury of the State of Mexico (the *Instituto Hacendario del Estado de México* in Spanish), we found that the main reason for that dependency is the fact that municipalities do not have a place in the National Coordination System, since the Mexican Constitution does not allow the federal government to transfer intergovernmental grants directly to municipalities. This brings about two main problems. First, the states have the responsibility of supervising the correct use of the resources, limiting the federal government to validating the correct use of them. Consequently, the resources are not accounted properly and the states have a tendency to direct some of the resources discretionally without taking into account the federal criteria; and second, it impedes the standardization of the processes of taxation which brings about not only a lack of coordination between the offices of the municipalities, but also many disparities in the way each one of the municipalities collects taxes especially because at this level the authorities are very close to the citizens who helped them into power, and for that reason they found difficulties in taxing them. Consequently, there are municipalities with such very low institutional capacities that the state has to collect the property tax for them and give it back to them later, whereas there are other municipalities which had invested properly in technology to be able to standardize the property registry for both the revenue and the cadastral offices. For instance, according to the head of the revenue office of Toluca, by 2011 he had achieved the collection of only 50% of the property registry because most of the people who worked for

him had been appointed by political authorities even though they did not have the capabilities to carry out the whole process of taxation from the beginning to the end.<sup>96</sup> Additionally, the period of time for which municipal authorities hold office is very short (only three years) and the situation is exacerbated because municipal governments are uncertain about the resources that they are going to be given every year by the federal government, which represents the majority of their revenues.

In the case of the expenditures, unlike Brazil, where the state has incorporated the civil society groups into the design of the institutional framework and policy-making of the state, in Mexico much of the participation is channeled through official channels (COPLADEM, COPLADEMUN) (Aldret 2011, 143-146).<sup>97</sup> Accordingly, when we asked the ex-recipients 'Have you ever attended the COPLADEMUN meetings to be informed and participate in the public issues of Toluca? YES/NO' and 'If you answered NO to the previous question, please indicate why', 98.6% answered NO, because they did not know they could, and only 1.4% of the ex-recipients answered YES, as Table 5.10 shows.

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<sup>96</sup> We also had an opportunity of interviewing a representative of the human resources department of Toluca and he confirmed that due to the lack of a civil service law, at least two thirds of the public servants had a temporary contract and around 70% of the people rotated every three years.

<sup>97</sup> COPLADEM and COPLADEMUN are the committees organized by the state and the municipalities, respectively, in order to know about the needs of the different groups of civil society and to make them part of the way in which social spending should be conducted.

**Table 5.10 Have you attended the coplademun meetings?**

What do you do?	Yes	No	Total	%
Student	0	95	95	27
Employed	1	153	154	43.8
Own business	2	31	33	9.4
Study and work	0	8	8	2.3
Unemployed	2	60	62	17.6
Total	5	347	352	100
%	1.4	98.6	100	

Source: Author with information from our survey.

### 5.2.2 Access to finance

As has already been discussed, after the implementation of the structural reforms, the state abandoned any attempt to invest directly in the industrial sector to generate employment since, according to the neo-liberal ideology, the state has to withdraw and allow the markets to follow their own dynamics and intervene only when market failures occur. This brought about a huge increase in the levels of unemployment and, in consequence, poverty. Since 2000, the Mexican state, in its three levels of government, has developed a very broad strategy to promote employment generation by opening access to finance for the creation, expansion and growth of medium, small and micro-enterprises (MSMEs) since they represent 99% of all economic units in the country and generate more than 70% of jobs in Mexico (PND 20007-2012, 111). They have strategies for the different groups in society and for different purposes. As Table 5.11 shows, at the lowest level there are the programmes that encourage self-employment (for the poor, the entrepreneurs and micro-enterprises) and then the programmes targeted at the small and medium enterprises and high-technology industries.

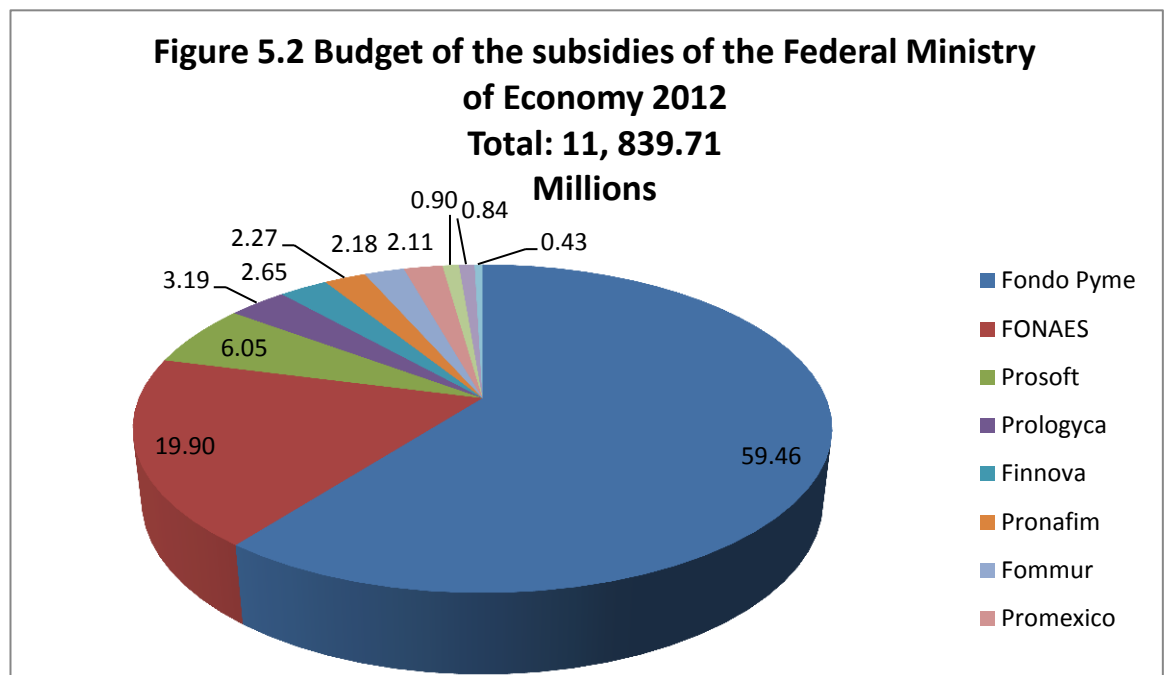


**Table 5.11 Programmes for the promotion of employment**

Classification	Type of enterprise or business	Federal Programmes	State of Mexico	Toluca
MNCs	MNCs.	PROMÉXICO, Special tariffs from the Ministry of Treasury	FIDEPAR, Ministry of Treasury	
Big enterprises	First-level manufacturers.  More than 250 employees	PROSOFT, PRODIAT, Special tariffs from the Ministry of Treasury	FIDEPAR, Ministry of Treasury	
Small and medium enterprises (SMEs)	Second-level manufacturers  50-250 employees	PROSOFT, PRODIAT, Fondo PYME, PROLOGYCA, PCEZM, PROIND, Special tariffs from the Ministry of Treasury	FIDEPAR, Ministry of Treasury	Quick companies opening system
Micro-enterprises	Retail suppliers.  0 – 10 employees.	Fondo PYME	Apoyo al autoempleo, Entrepreneurial Institute of the State of Mexico (IME)	Fontol, Quick companies opening system
Entrepreneurs	Micro-enterprises  0 – 10 employees.	FINNOVA, Fondo PYME,	Apoyo al autoempleo, IME	Fontol, Quick companies opening system
Access to finance for social enterprises of the poor.	Micro-enterprises.  0 – 10 employees.	FONAES, FOMMUR, PRONAFIM	Apoyo al autoempleo	Fontol, Quick companies opening system
Source: Author with information from our semi-structured interviews and the webpages of FONAES, IFAI, INEGI and INFOEM.				

As Figure 5.2 shows, most of the resources for this kind of programme are concentrated on encouraging the development of MSMEs of society in general (around 60%). The second place is occupied by the programmes that target the poor, such as FONAES, FOMMUR and PRONAFIM, which have almost 20% of the total investment for this programme. Finally, there is the support given to the big enterprises or the MNCs, although, as was explained in

Chapter 2, these enterprises are the ones that take most advantage of the special tariffs given by the Ministry of Treasury.



Source: SE (2012, 14).

Most of these programmes are managed, either centralized or decentralized, by offices of the Ministry of Economy or their counterparts in the states and municipalities, with the exception of the special tariffs of the Ministry of Treasury, and in the case of the State of Mexico the *Apoyo al auto empleo* programme, which depends on the local Ministry of Labour. As previously discussed, the programmes directed at the MSMEs were a means for the state to put the financial resources close to the citizens, since due to the low level of law enforcement; banks are reluctant to grant credits for commercial purposes. In consequence, the state has encouraged the appearance of what they call the development banking system and the multiple banking system, which are financial institutions specialized in granting credits and/or subsidies for

commercial purposes to individuals who are part of these governmental programmes.<sup>98</sup>

In the broadest terms, the MSME's programmes provide support through the multiple or development banking systems or intermediary organizations, for the creation and/or consolidation of productive projects or activities to contribute to the generation of occupations.<sup>99</sup> All of them work on a similar structure; the entrepreneurs have to propose an idea for a business, the governmental office or the intermediary then studies the feasibility of the project and, if the project is accepted, finally, after on average six months, people start receiving their credit and, if needed, management training. FONAES presents the only exception since it provides a subsidy and not a credit; that is, the resources that the people receive do not have to be paid back by the poor as long as they invest it for the purposes stated at the beginning. Additionally, finance can be given either to individuals or to groups. An extensive analysis of every one of the programmes that target the poor is beyond the scope of this thesis. However, the main points to highlight are presented next.

First, with the exception of FONAES, the rest of them are not linked to the *Oportunidades* or any programme of social assistance. Moreover, in an interview with people from PRONAFIM, they told us that since PRONAFIM is a programme of the Ministry of Economy and *Oportunidades* of the Ministry of Social Development, they cannot use the word 'poverty' in their rules or

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<sup>98</sup> The organizations of the development banking system belong to the federal public administration whereas the organizations of the multiple banking systems are private organizations authorized to operate as lenders by the National Commission of Banking.

<sup>99</sup> Intermediary organizations are normally private organizations which belong to universities and are called 'incubators' specializing in giving advice to micro-enterprises. There are federal and state level webs of Incubators. They can also be offices or institutes of the local governments, such as FONTOL in Toluca or IME for the State of Mexico, through which some resources are brought closer to the citizenry.

advertisements, rather they use terms such as 'people of low resources'. Furthermore, despite the fact that FONTOL is a programme half of whose financial resources come from FONAES, FONTOL does not require people to show that they are part of a social assistance programme and people have to pay back the resources given.

Second, as has already been discussed, potentially there are more poor people in urban than in rural zones. However, FONAES, which is the one linked directly to the programmes of social development, gives priority to zones of high marginality where there is limited access to basic public services such as potable water, electricity and so on, and in Mexico most of these are classified as rural. As an instance, out of all the occupations created by FONAES from 2000 to 2012, more than 70% were created in the first sector of the economy while only the rest were in the industrial or the service sectors.<sup>100</sup>

Third, there is no evidence that these programmes contribute to the creation of new enterprises, but only the strengthening of the existing ones (UNAM 2009, 3). Furthermore, the formation of groups to receive the finance does not have the goal of forming clusters to bring them closer to bigger enterprises but to make sure that the borrowers will pay the money back on time, since people do not necessarily have to belong to the same sector of the economy or work on the same activity or occupation. As a matter of fact, in Questions 29 and 30 ('Have you ever attended or considered attending an organization of the state for advice and/or funding to start, expand, introduce technology or increase the production of your business? Please tick the

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<sup>100</sup> [www.fonaes.gob.mx](http://www.fonaes.gob.mx) accessed: May 2011.

programme' and 'If you have not attended or considered attending an organization of the state for advice and/or funding to start, expand, introduce technology or increase the production of your business, please highlight the main reason for that'), of the 352 ex-recipients not one of them had attended or had considered requesting advice and/or funding to start, expand, introduce technology or increase the production of their own business; 63.6% of them answered that they were not interested in having a business as a way of life, those who owned a business (9.4%) answered that this was because it took a long time to receive an answer from the government and the rest (27%) of the ex-recipients (students) did not answer.

Fourth, most of the micro-enterprises in Mexico are informal – they are not registered with the social security and/or fiscal institutions – and there is no link between any of these programmes and the Ministry of Treasury or any social security institution to promote the formalization of the micro-enterprises. As a matter of fact, the rules of the programmes state clearly that their main purpose is to generate occupations and not employment, and when we interviewed people from FONAES and PRONAFIM, they confirmed that the occupations created by the programmes are mainly informal. Moreover, we also had opportunities to interview representatives of *Apoyo al Autoempleo*, FONTOL, IME, consultancies and people from the Ministry of Economy, and they all agreed that the main constraint that micro-enterprises find to maintaining their business as a way of living is the lack of business management skills. However, the main difficulty in approaching the micro-enterprises to formalize and help them to maintain and/or increase their production was that people do not see benefits or incentives to paying taxes,

which decreases their opportunities to survive in the long-run. According to INEGI (2012, 7-9) in 2009 1,135,089 (28.3% of the total) new micro, small and medium enterprises were created. However, between 2009 and 2012 884,240 (22% of the total) micro, small and medium enterprises died.

Accordingly, when we asked the ex-recipients 'What are the main constraints that you have faced or would face if you wanted to establish a business as a way of life?', most of the students, employed and unemployed pointed to the lack of finance as a main constraint. However, most of the ex-recipients who owned a business (33) identified the taxation system as a main constraint; fifteen of them argued that taxes were too high and thirteen that the taxation system was complicated, as Table 5.12 shows, in spite of the fact that, as argued above, in recent years there has been a thorough administrative simplification so that the micro-enterprises find it faster and easier to pay their taxes.

**Table 5.12 Main constraints to establishing a business as a lifestyle**

What do you do?	Taxation system is complicated	Finance	Taxes are very high	Permissions	Know how	Total	%
Student	1	84	3	5	2	95	27.0
Employed	4	101	32	9	8	154	43.8
Own business	13	1	15	4	0	33	9.4
Study and work	0	7	1	0	0	8	2.3
Unemployed	2	51	4	1	4	62	17.6
Total	20	244	55	19	14	352	100
%	5.7	69.3	15.6	5.4	4.0	100	

Source: Author with information from our survey.

By the same token, when we asked the ex-recipients in our question 32 'If you had to choose between a job with access to health security although some deductions were made from your salary or wage, or a job in which you received your full salary or wage but without access to health services, what would you prefer?', 73% of the ex-recipients answered that they would prefer to have a job with access to health services rather than a job without it, even though they would not receive their full salary. Likewise, most of the unemployed and those who had their own business answered accordingly, as Table 5.13 shows. Contrastingly, only 21.9% of the ex-recipients (77) that were working had access to social security. This would suggest then that the ex-recipients would actually prefer to pay taxes as long as they have incentives to do so.

**Table 5.13 Type of job preferred by the ex-recipients**

What do you do?	<i>If you had to choose between a job with access to health security although some deductions were made from your salary or wage, or a job in which you received your full salary or wage but without access to health security services, what would you prefer?</i>		Ex-recipients with access to IMSS				
	Job with access to health security	Job without access to health security	Yes	No	No answer	Total	%
Students	61	34	0	8	87	95	27.0
Craft	6	4	0	10		10	2.8
Helper/ assistant	49	12	29	32		61	17.3
Cashier	9	1	5	5		10	2.8
Labourer	2	0	0	2		2	0.6
Unemployed	42	20	0	0	62	62	17.6
Nurse	6	0	0	6		6	1.7
Engineer	1	1	2	0		2	0.6
Janitor	3	0	2	1		3	0.9
Instructor	2	2	1	3		4	1.1
Waiter	2	0	2	0		2	0.6
Own business	24	9	1	32		33	9.4
Nanny	1	0	0	1		1	0.3
Worker man	12	3	12	3		15	4.3
Clerk	2	4	2	4		6	1.7
Private security	2	0	2	0		2	0.6
Public servant	7	0	3	4		7	2.0
Employee	1	1	1	1		2	0.6
Technician	8	1	3	6		9	2.6
Telemarketer	6	0	5	1		6	1.7
Peddler	1	0	0	1		1	0.3
Counter seller	10	3	7	6		13	3.7
Total	257	95	77	126	149	352	100
%	73.0	27.0	21.9	35.8	42.3	100	

Source: Author with information from our survey.

Finally, when we asked the ex-recipients in question 31 about the level of trust that they had in relation to the way Mexican officials use the taxes that they have paid, 76.4% answered very low or low, 2.3% answered average and the



remaining 21.3% answered high or very high. Out of all the ex-recipients who owned a business, 70% answered that their level of trust was either low or very low, 24% that it was average and only 6% that it was very high, as Table 5.14 shows. This would suggest that the incentives that the ex-recipients need go beyond the simple access to social security services to open access to services such as higher education and financial resources that would allow them to obtain sustained income to move out of poverty, and only then tax collection would be justified.

**Table 5.14 Level of trust in the way in which Mexican officials make use of the taxes**

What do you do?	Very low	Low	Average	High	Very high	Total	%
Student	64	15	0	11	5	95	27.0
Employed	84	32	0	23	15	154	43.8
Own Business	19	4	8	0	2	33	9.4
Study and Work	4	3	0	0	1	8	2.3
Unemployed	31	13	0	7	11	62	17.6
Total	202	67	8	41	34	352	100
%	57.4	19.0	2.3	11.6	9.7	100.0	

Source: Author with information from our survey.

### 5.3 Conclusions

In this chapter, we have argued that the federal level has tried to maintain its power over access to public resources, which has impeded the improvement of the institutional and administrative capacities of the lower levels of government and consequently has made it difficult to use expenditure as a tool for alleviating poverty and in this way to justify greater tax collection. In the case of the decentralization of education, the federal level has kept for itself not

only the collection and distribution of fiscal resources but also the policy-making of the education system, all of which has brought about a weak correlation between the skills acquired in formal education and those needed in the labour market, which has reduced the opportunities of the ex-recipients of the *Oportunidades* programme from obtaining sustained income as shown above. Moreover, instead of helping the local levels to improve their institutional capacities to participate in the provision of higher education (BA level), the federal level has allowed the private sector to step in, and this has brought about a wide educational gap between the rich and the poor since it is difficult for the poor to reach that study level which, according to our results, is the level that could make a difference as far as finding sustained employment is concerned. The situation at the municipal level might be the most serious since, although it is the level of government to which more of the ex-recipients attend looking for help to find employment, this level of government is not taken into account in the National System of Fiscal Coordination and the Employment Law, which impedes municipalities from participating in increasing the skills levels of the population. As for the programmes whose purpose is to foster self-employment, the main problem would be that most of the micro-enterprises are informal and might find difficulties in surviving in the long run for two main reasons. First, the ex-recipients are not interested in paying taxes because they do not have incentives to do so and they do not trust the way in which the Mexican officials make use of the taxes, which impedes the formalizing of enterprises to increase their opportunities to survive. Second, most of the ex-recipients had not considered opening a business since they preferred

sustained employment that would allow them to make plans in the long run and to have access to benefits such as social security services.

## CHAPTER 6

### PERCEPTIONS OF THE EX-RECIPIENTS ABOUT THE INSTITUTIONAL CAPACITIES OF THE MEXICAN STATE

#### Introduction

In Chapters 4 and 5, using the aggregated data that we obtained from our survey, we uncovered the extent to which the weakness of the institutional capacities of the state has impeded the ex-recipients of the *Oportunidades* programme from obtaining sustained income in the labour market. However, in Chapter 1 we argued that institutions and organizations have to be understood not only as constraints and/or enabling devices, but also as constitutive ones since they are constructed according to the interests, ideology, values and world views of the actors involved in the institution-building process and can shape not only the economic outcomes of the citizens but also their behaviour. In this chapter, we shall analyse the extent to which the neo-liberal ideology of the Washington Consensus reforms behind the institutional framework of the state has shaped the behaviour of the ex-recipients of the *Oportunidades* programme that we interviewed in the occupational realm.

We argue that, contrary to the neo-liberal ideology of the Washington Consensus reforms, which assumes that state intervention to help the poor through cash transfers and social provision creates perverse incentives for them not to move out of poverty by their own efforts, it is the weakness of the institutional capacities of the Mexican state which has impeded the *Oportunidades* programme from enabling the poor to obtaining sustained

income in the labour market to move out of poverty by their own efforts. For this purpose, we shall use the dialogues from the focus group that we carried out during our fieldwork, by which we explored as thoroughly as we could the perceptions of the ex-recipients of the *Oportunidades* programme about the extent to which the weakness of the institutional capacities of the Mexican state has impeded them from obtaining sustained income in the labour market to move out of poverty by their own efforts. We did not question them directly about these topics because it would have been difficult for them to know about or to have experience of all of them. However, what makes the answers of the focus group credible is that we conducted the interviews in a way in which they give us variables that would reflect their experiences that could represent the effects on the ground of those factors, as we shall see later.

The chapter is divided into four main sections. In the first section, we shall briefly explain the neo-liberal ideology of the Washington Consensus reforms. The second and third sections will present the perceptions of the ex-recipients of the *Oportunidades* programme about the extent to which the weakness of the institutional capacities of the Mexican state has impeded them from obtaining sustained income in the labour market, in contrast with the neo-liberal ideology of the Washington Consensus reforms. The fourth section will present the main conclusions of the chapter.

## 6.1 Neo-liberal ideology

While analysing the citizens' perceptions about subjects related to the state's institutions and organizations, we have to consider the historical experience of Mexico and the political culture that exists in the country. Without understanding the political system and how it is structured, it is not possible to understand the ways in which Mexican citizens perceive the extent to which the weakness of the institutional framework of the state impedes them from achieving their economic goals. In this sense, as has already been explained in previous chapters, an important variable to keep in mind is that the weakness of the institutional capacities of the Mexican state has contributed significantly to determining the negative outcomes of the development strategies, especially after the 1980s, when the Washington Consensus reforms were implemented.

As discussed in the first part of the thesis, since the late 1970s, Mexico's, and, in general, Latin America's political economic framework experienced an extensive transformation from a state-led development scheme to a neo-liberal one. As explained in Chapter 1, after the Great Depression of the late 1920s and then World War II, states all over the world faced great pressures to control the excesses of capitalism. As a result, the postwar era was marked by state-dominated development strategies which gave birth to the so-called Welfare State, where prosperity, equality and full employment were in equilibrium (Esping-Andersen 1990, 18-33). Latin American countries, to some extent, were no exception. However, as explained before, due to their weak institutional capacities, not only were the Latin American states unable to develop any productive sector that allowed them to compete internationally, but they also

depended mostly on international loans and/or the profits from oil to sustain their social spending.

In this context, the globalization of the economy and the fall of the oil price during the late 1970s had serious effects on the Mexican and Latin American economies and in the early 1980s they suffered a high debt crisis, bringing about large devaluations and high levels of inflation, which contributed to increasing the levels of unemployment, income inequality and poverty. As noted by Centeno and Cohen, scholars still disagree about the main causes of the crisis. At the time, however, state interference was signalled as the main culprit and its withdrawal from intervening in the economy, allowing the markets to follow their own dynamics, was seen as the best solution (*op. cit.*, 4). These views were crystallized in the so-called Washington Consensus reforms, which would bring about macroeconomic stability and would help to increase employment and reduce income inequality and poverty.

As argued before, the so-called Washington-Consensus reforms started to be implemented in the early 1980s and basically comprised two main market-oriented strategies, the reduction of the size of the state and the openness of economic sectors, in order to allow the markets to adjust properly – on their own dynamics – to the new conditions and challenges that the new global order presented. According to Evans and Sewell, by opening their economic sectors, developing countries became part of a rapidly integrating world market, regulated by global rules administered by economic governance institutions

such as the World Trade Organization, the IMF and the World Bank.<sup>101</sup> This new regulatory framework of the world economy is commonly referred to as *neo-liberalism* (2013, 2).

The neo-liberalism or *laissez-faire* that emerged as an ideology and policy paradigm in the 1970s drew on classical liberalism's ideas that aimed to provide an answer to the question of the limits to the power of the state because of the complexity of economic mechanisms (Chang & Grabel 2004, 14; Amable 2010, 7; Evans & Sewell *op. cit.*, 15-16). According to the ideas of classical liberalism, in order to have a prosperous society, it is in the interest of states to be cautious in any action affecting the economy (Amable *op. cit.*, 8). In contrast, neo-liberal ideologists such as Hayek (1944), Friedman (1962) and Murray (1984) denigrated the notion that the state was both coordinator and guarantor of the well-being of society.<sup>102</sup> For them it is a mistake to think that the state should be cautious in any action affecting the economy. Instead, they argued that the role of the state should be to intervene actively in the economy to ensure free and fair competition under the rule of law (Hayek 2006, 79; Friedman 1982, 13). More precisely, the main duty of the neo-liberal state is to maintain the market order; it refrains from interfering in production and exchanges but sanctions attacks against competition between individuals, which is always under threat from groups who try to protect themselves from its rigour and consequences (Amable *op. cit.*, 10).

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<sup>101</sup> According to Chang and Grabel, the term Washington Consensus is often used synonymously with neo-liberalism because the United States government, the International Monetary Fund (IMF) and the World Bank, all based in Washington DC, are such forceful advocates of these reforms (2004, 14).

<sup>102</sup> See Hayek (2006), especially Chapter 8.



As previously discussed, by the early 1990s macroeconomic stability had been almost universally achieved. The problem was, as argued above, that the Washington Consensus reforms pulled apart the protective regulations and mechanisms of socio-economic equalization that characterized the welfare state developed between the 1930s and the late 1970s.<sup>103</sup> As a result, the global economy has become more prone to economic crisis, which has constrained the equalization of the socio-economic conditions of the population even more. However, as noted by Centeno and Cohen, no matter what one's views are on its costs and benefits, we need to understand neo-liberalism as the triumph of market ideologies (*op. cit.*, 22).

The market's first great victory was in the academic arena. The principles underlying neo-liberalism first established their monopoly in the economics profession by stressing the welfare-maximizing consequences of market exchange through the use of mathematical models (Evans & Sewell *op. cit.*, 36). Once they had conquered the academic arena, politicians and policy makers began defining an economic guidebook which they sought to apply in the developing and, after 1989, in the post-socialist world, better known as the Washington Consensus (Centeno & Cohen *op. cit.*, 24). As a political ideology, neo-liberalism exalts the superiority of the market allocation of goods and services over public provision (Evans & Sewell *op. cit.*, 36). Perhaps the most important events that triggered the establishment of neo-liberalism as a political

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<sup>103</sup> Huber argued that every model of capitalism has two essential constituents. On the one hand, there are growth-oriented strategies that deal with the different aspects of production and the provision of commodities, and these are clearly identified as economic policies and, on the other hand, equality-oriented strategies, in which the emphasis is on the interests of people, and these are identified as social and labour market policies (2002, 3). Both components are not only compatible but they also complement each other. However, their distinction and complementarity have been blurred by the neo-liberal ideology of the Washington Consensus reforms in most of the developing world (Evans 1995, 6).

ideology all over the world were the elections of Margaret Thatcher in Britain (1979) and Ronald Reagan in the United States (1980), two strong advocates of neo-liberalism, because the United States was the world's hegemonic power and Britain was its closest ally in economic and military affairs, which put pressure on all their economic partners to include neo-liberal reforms on the political agenda (Sewell 2009, 274).

As a policy paradigm, neo-liberalism refers to the so-called Washington Consensus reforms intended to increase the role of markets in regulating economic life that we mentioned before, such as the deregulation of financial and labour markets, the decentralization of public services, lowering taxes, disempowering labour unions, cutting public spending and so on (Evans & Sewell *op. cit.*, 36-38). Altogether, as economic theory, political ideology, and policy paradigm, neo-liberalism deploys constitutive narratives that shape the individual's behaviour while simultaneously making neo-liberal political ideology and policy paradigms seem natural (Hall & Lamont 2013, 4; Evans & Sewell *op. cit.*, 38). Perhaps the most powerful and effective constitutive narrative that justified the dismantling of the welfare state is the notion that social programmes to help the poor to create a moral hazard problem (Hirschman 1991, 27-28; Somers & Block 2005, 271-274; Somers 2008, 80-81).<sup>104</sup>

As noted by Somers and Block, it has been argued that society, like nature, is a self-regulating system that, when untouched by political intervention, will tend toward equilibrium and order (*op. cit.*, 271). Accordingly, any attempt to control and mitigate even its harshest natural laws, such as food

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<sup>104</sup> See Friedman (1982), especially Chapter XI.

scarcity, would bring about imbalance and disorder (*ibid.*, 273). In view of this, social programmes to help the poor through cash transfers and social provision create perverse incentives for welfare recipients not to move out of poverty by their own efforts, creating a culture of welfare dependency which exacerbates poverty (Hayek 2006, 128-129; Friedman 1982, 162-163; Somers *op. cit.*, 80). According to Hayek, state intervention to help the poor creates a culture of welfare dependency because it prevents competition, that is, individuals – relying on their own and/or developing new entrepreneurial skills – have to adapt constantly to the supply and demand dynamics of the market (2006, 52 and 214-215). For him, a competitive system is the only one in which nobody can prevent people from achieving their economic goals (*ibid.*, 107). Being poor is then a behavioural choice since citizens are responsible for seeking out opportunities in the labour market and avoiding, by themselves, the inevitable risks that entrepreneurialism entails (*ibid.*, 104-127).

However, as noted by Evans and Sewell, although the political agendas of many countries all over the world were influenced by the Washington Consensus reforms, their adoption, implementation and failure or success varied according to the internal and external context of each individual country (*op. cit.*, 39-40). Accordingly, unlike in Mexico, evidence suggests that, in the developing world, poverty has been alleviated more effectively in countries where neo-liberal initiatives have been accompanied by strong institutionalization of the labour market such as in Brazil, Taiwan and South Korea (Chang 2010, 179; Grinberg 2010, 185; Cypher 2013, 391; Evans & Sewell *op. cit.*, 48). In the next two sections, we shall analyse the perceptions of the ex-recipients of the *Oportunidades* programme about the extent to which the

weakness of the institutional capacities of the Mexican state has impeded them from obtaining sustained income in the labour market, in contrast with the neo-liberal ideology of the Washington Consensus.

## **6.2 Perceptions about the regulatory-market capacity of the state**

In this section, we shall analyse the perceptions of the ex-recipients of the *Oportunidades* programme about the extent to which the weakness of the regulatory-market capacity of the state has impeded them from obtaining sustained income in the labour market, in contrast with the neo-liberal ideology of the Washington Consensus reforms. As we shall see later, the findings from the focus group discussions about the weakness of the regulatory-market capacity of the state were rather scarce since most of the participants had not had any experience of dealing with the labour justice systems, the labour inspectors or the unions. However, they were extremely revealing since their responses showed us a different view of how the weakness of the regulatory-market capacity of the state has impeded the ex-recipients from obtaining sustained income in the labour market.

### **6.2.1 Weakly institutionalized bureaucratic apparatus**

In line with the neo-liberal ideology of the Washington Consensus reforms, during the 1980s and 1990s, Latin American countries initiated a process of flexibilization of their labour markets since it was considered that their rigidity prevented employment growth (Bayón *op. cit.*, 307; Teichman 2012, 142-143). Paradoxically, the results in most of the Latin American countries have been wage deterioration, job insecurity and the loss of health,

pension and many other important benefits (Teichman 2012, 143). In Brazil, as argued before, an important factor that made it possible, to some extent, to cope with the flexibilization of their labour market was the strengthening of its bureaucratic apparatus, which enabled them to engage with other government and non-government actors, bringing about effective solutions to make the private sector comply with the law but, at the same time, helping them to increase their production and sales.

In Mexico, on the other hand, law enforcement has been softened informally. That is, the organizations of the state responsible for monitoring and inspecting labour regulations and those in charge of the application of labour justice have been permissive with the private sector in order to avoid job destruction, sacrificing the rights of workers in the process. As discussed in Chapter 4, the logic behind the softness of the law enforcement in the labour market is that the private sector and the employees do not know the labour norms and it is necessary to advise them on how to comply with the law to keep firms running to avoid job destruction. However, this has meant the weak institutionalization of the bureaucratic apparatus in charge of applying labour justice and in consequence that workers are prevented from accessing impartial and impersonal state organizations that protect their rights while helping the private sector at the same time to increase or maintain their productivity.

For instance, as shown before, all the ex-recipients in the focus group were unemployed; when we asked about their previous jobs they all indicated that they had been working in large enterprises and when we questioned them about why they had lost their previous jobs, they explained that this had been

because the enterprises offer only temporary contracts of six months to carry out a particular job. If there is more work to do, they renew the contract for another six months; if there is not, they do not renew it.<sup>105</sup> Additionally, although they told us that the enterprise had paid them everything specified in their contracts, when we asked if they knew whether their contracts had been written in accordance with the Mexican laws, they said that they did not know, and when we asked them if they knew which organizations to consult about problems related to their rights as workers, they named the Ministry of Labour, but when we mentioned specific organizations such as the Federal or Local Boards of Conciliation and Arbitration (JFCyA and JLCyA) or the PROFEDET, either at the federal or state level, they replied that they did not know about them but that they trusted in the Mexican institutions and would apply to them in the event that their workers' rights were not respected.

However, when we asked them what they thought about the level of impartiality and impersonality with which the law is enforced in Mexico, their opinions were mainly negative. They argued that because of corruption, law enforcement is normally in favour of the patrons, in both trials and labour inspections, since the patrons can pay for prestigious lawyers to represent or advise them and that is the only way to ensure that the law is applied correctly.<sup>106</sup> Accordingly, as argued in Chapter 4, the Head of Human

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<sup>105</sup> It is important to highlight that although most of the ex-recipients were unemployed, most of them were working or helping in a family business. However, they did not consider that to be employment, which is why they considered themselves to be unemployed. We shall go back to this point later in section 6.3. For now we are just interested in clarifying this issue in order to raise the point that as far as the law enforcement section is concerned, most of the talk was carried out in relation to employment in the industrial sector.

<sup>106</sup> Latinobarómetro 2009 reported that the confidence of the citizens in the judiciary and the government of Latin American countries was mainly negative. Latin American citizens have on average little confidence in the judiciary, which is in charge of applying the laws, and only some confidence in the

Resources of the small company that manufactured automobile seats that we had the chance to interview told us that inspectors normally prefer to monitor the medium- or large-sized companies because in those they can obtain a larger bribe in the case of an enterprise found to be violating the labour norms and regulations, and that when there are health and safety issues, workers do not sue the enterprise because they know that a trial will last a long time and that hiring a prestigious advocate is very expensive.

### **6.2.2 Weak unions**

As argued in Chapters 2 and 4, along with the organizations of monitoring and applying labour justice, the unions complement the organizations in charge of law enforcement in the world of labour. Moreover, as discussed in Chapter 1, third-party enforcement is vital for having an impersonal and impartial institutional framework. However, as shown above, in line with the neo-liberal ideology of the Washington Consensus reforms, the private sector in most of the Latin American countries, with the indulgence of the states, has pushed for the shrinking of unions, since they are considered to be an obstacle to the well-functioning of the neo-liberal economic model. As previously explained, an exception might be the Brazilian case, where, unlike Mexico, the collective and social capacities of its unions have played an important role in adjusting the institutional framework of the labour markets to the new conditions (Haagh & Cook *op. cit.*, 179)

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government, and in the specific case of Mexico, citizens have little confidence in either the judiciary or the government (The scale used was: 0=No answer, 1. A lot of confidence; 2. Some confidence; 3. Little confidence; 4. No confidence at all; 8. Do not know). Available at: <http://www.latinobarometro.org/latino/LATCorporacion.jsp>. Accessed: November 2012.

In contrast with the neo-liberal ideology of the Washington consensus reforms, the ex-recipients clearly stated that the unions are the bodies that protect their rights and are aware of their health and safety conditions. Moreover, their perception was that they (the unions) are more reliable than the organizations of the state. However, at the same time they believed that the enterprises use the unions to keep workers under control, especially the small enterprises, which according to them care less about the labour conditions of the workers, such as the security and health of the workers, as was shown in Chapter 4. Nonetheless, they find incentives for forming or belonging to a union since they believe that this is the main way to obtain a stable job.<sup>107</sup>

An important point to highlight here is that, according to the ex-recipients who we interviewed, they are offered six-month contracts and the unions have as a condition of membership the requirement that people have to have had at least six months working for the enterprise. This is a major gap in the labour norms since, although the unions do not contravene any norm or law by doing this, they do constrain the ex-recipients from the possibility of being protected. Moreover, as we saw in Chapter 4, this could be an agreement between the enterprise and the unions to avoid having more workers protected and to eliminate employer responsibilities, taking advantage of the loopholes in the Mexican labour norms and regulations, especially the gaps as far as

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<sup>107</sup> In accordance not only with what the ex-recipients of the focus group thought but also with the results of our survey, Latinobarómetro reported that in 2009 Mexicans and Latin American citizens in general had little confidence on average in unions. This report strongly backs up our results since, as we explained in Chapters 2 and 4, Mexican citizens in general had lost hope in unions because after the structural reforms unions were no longer able to represent and obtain important benefits for workers, although they believed that unions were the only way to keep employment for a long period of time. Moreover, in accordance with what we have seen about the way in which the unions have been an important factor in the adjustment of the labour market to the globalization process in Brazil, Latinobarómetro reported that Brazil, alongside Uruguay, was the Latin American country with the highest percentage of people that do trust unions.



outsourcing is concerned, which have already been discussed in Chapter 2 and 4.

### **6.2.3 Short job tenure**

As a result, in accordance with our results presented in Chapter 4, the weakly institutionalized law enforcement in the world of labour has brought about short job tenure with high levels of informalization. According to the ex-recipients interviewed in the focus group, not only do the enterprises offer only temporary contracts of no more than six months, but also the only benefits that they offer – in small, medium and even in big enterprises – are health security and overtime payment, but they did not receive fringe benefits. Moreover, they did not even know that they had the right to receive part of the revenues that the enterprises produce every year. Furthermore, as argued in Chapter 5, sometimes, although workers are registered in IMSS, if there is an accident they are taken to a private hospital so that the owners of the enterprise do not have to pay for medical leave or attract the attention of IMSS in regard to the working conditions that they offer.

As for their salaries, they were around 3500 pesos on average per month.<sup>108</sup> As discussed before, according to the official poverty lines in Mexico, with these salaries the ex-recipients were no longer poor. Furthermore, we confirmed that they did not spend too much time unemployed, because, as has been apparent from our findings described in previous chapters, they can find employment or an occupation relatively quickly (three to six months). However, as previously argued, not only were such employment or occupations low-

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<sup>108</sup> Around 175 pounds sterling.

qualified and temporary but also most of the ex-recipients argued that they had had to accept jobs in complete informality (without access to unions or social security services, without a contract, and so on), because they could not find sustained employment.

### **6.3 Perceptions about the fiscal capacity of the state**

In the previous section, we analysed the perceptions of the ex-recipients of the *Oportunidades* programme who we interviewed about the extent to which the weakness of the regulatory-market capacity of the state impedes them from obtaining sustained income in the labour market, in contrast with the neo-liberal ideology of the Washington Consensus reforms. We have previously argued that combined with the institutional weakness of the regulatory-market capacity of the state in the world of labour, the institutional weakness of the fiscal capacity of the state has limited the ex-recipients' access to services such as formal education and resources that would allow them to increase their capabilities to obtain a sustained income in the labour market. In this section, we shall analyse the perceptions of the ex-recipients of the *Oportunidades* programme about the extent to which the weakness of the fiscal capacity of the state impedes them from obtaining sustained income in the labour market, in contrast with the neo-liberal ideology of the Washington Consensus reforms.

#### **6.3.1 Access to formal education**

As previously argued, the main idea behind the *Oportunidades* programme is to provide a minimum income to the poorest so that they invest it in the education and health of their children, who, once educated and healthy,

would acquire capabilities that would enable them to keep on obtaining an income in the labour market in the mid and long-term to move out of poverty by their own efforts. We have argued that one of the most significant positive effects of the *Oportunidades* programme on the well-being of the poor is that it has increased the levels of school attendance. As a matter of fact, according to our interviews, the ex-recipients really appreciated the help given by the programme, and were especially grateful that thanks to the education to which they had access, they were sufficiently educated and prepared to compete for a job in the labour market.

However, as briefly shown in Chapters 1 and 2, the low skills levels of the population is still an important characteristic of the Mexican labour market. Accordingly, as explained earlier, as part of the Washington Consensus reforms, the Mexican and Latin American states undertook a process of fiscal decentralization (tax and social spending) during the late 1980s and early 1990s with the intention of both reducing the size of the state and its intervention in the economy, and of improving the effectiveness of the allocation of resources. Conversely, as has already been explained, this is not the reality of social spending in Mexico since, as was argued in Chapter 5, social spending on higher education is not only low but also highly regressive, being one of the main impediments that the ex-recipients face when it comes to obtaining sustained income in the labour market.

According to Falleti, the important factor that enabled a, partially, successful fiscal decentralization in Brazil in the 1980s and 1990s was that decentralization was demanded by the sub-national governments (states and

municipalities), who called for the decentralization of fiscal resources first (tax collection) to improve their institutional capacities and then the decentralization of social spending (*op. cit.*, 151-153). In Mexico, on the other hand, we have already discussed how the federal level has manipulated the institutional framework of the state to keep control over access to basic resources and services which has brought about low and regressive public spending. For instance, the current National System of Fiscal Coordination does not allow the states and municipalities to increase their revenues since not only is it poorly regulated but it does not even take the municipalities into account. On the other hand, we have argued that not only did the education reform of 1997 not cover higher education, bringing about discretionary social spending, but also the federal government kept for itself the policy-making of the curricula, bringing about a very weak correlation between the skills acquired in formal education and those needed by enterprises.<sup>109</sup>

Accordingly, the perception of the ex-recipients towards the level of education was that a BA is practically necessary to obtain sustained employment, just like the answers to our survey which were presented in Chapter 5. Even more, they believed that any kind of specialization in a specific discipline is not necessary at all, which is also in accordance with what we showed in Chapter 5 about the great distance between what is taught in formal public education and the skills needed in the labour market. The new uncovered point here is that the main constraint that they faced to study at this educational level is the process for entry to the public universities – specifically the

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<sup>109</sup> In the Latinobarómetro survey of 2009, they asked the Latin American citizens about their satisfaction with the way that public education works. The average answer in the Latin American region (Mexico included) was 'rather satisfied'. (The scale was: 0=Do not know, 1=Very satisfied, 2= Rather satisfied, 3= Not very satisfied, 4= Not satisfied at all).

admission exam that they have to take – which is perceived as a non-transparent process and discouraged them from planning a career with a BA, making them focus on finding employment as their main priority.

On the other hand, as was shown in Chapter 5, although the state has increased its social spending on scholarships so that students can continue studying, they find it difficult because they do not know about these scholarships. This is probably due to the fact that the procedures to obtain the scholarships can only be undertaken once the semester starts and it takes a while for the scholarship to be finally granted. Moreover, as has been shown in previous chapters, social spending is cyclical, so there is no real certainty about the availability of resources to offer scholarships, so the promotion of the scheme has less impact.

Finally, and in accordance with what we have demonstrated in Chapter 5, the regressiveness and the discretionary nature of social spending in higher education forced the ex-recipients to prefer studying in technical or technological high schools to increase their chances of obtaining sustained employment. Moreover, it forced them to focus on finding a job as their main priority rather than planning a life with a university degree. The problem is, however, that even though they might study at a technical or technological high school, it does not make a real difference as far as obtaining sustained employment is concerned since there are not enough well-paid jobs.

As a matter of fact, the ex-recipients believed not only that the education to which they had access prepared them well enough to obtain a job, but also that the technological or technical high school makes a difference as far as finding a job is concerned. However, in practice it really does not since the ex-

recipients explained that not only do they have to be trained by the enterprises before they start performing their job, but also that they preferred not to invest their own resources in training themselves but waited to be trained by the enterprises since they did not know what kind of job they could find. Accordingly, as argued in Chapter 5, the person who was part of the automotive cluster that was due to be formed in the State of Mexico commented that a high investment in training every worker who the firms hire is unavoidable. So, it might be the case that the high school diploma is only a requirement that job-seekers have to fulfil as a filter, but that it would not make a difference at all as far as finding a job is concerned.

### **6.3.2 Access to training and labour market policies**

According to intergenerational mobility researchers, the socio-economic background of the poor is an important determinant of how far they can advance in educational levels. In consequence, a poverty reduction strategy which opens access to education might not be enough since it would be necessary to complement this with labour market policies that allow the poor to improve their socio-economic conditions (Nolan *et al.*, 2010, 23; Esping-Andersen & Wagner 2012, 479). In view of this, an important point to highlight is the fact that the socio-economic background of the recipients (that is, the education and/or economic levels of their families), along with the support of the *Oportunidades* programme, seems to determine how far they can advance in educational levels. For instance, both the ex-recipients that we interviewed in the focus group and those in the survey were lower-middle class rather than extremely poor. Those who were able to continue to the BA level were in a

better position although without reaching the middle-class level, and those who studied only the high school level could be easily classified as lower class.

As previously discussed, in line with the Washington Consensus reforms, the Mexican and Latin American states have implemented different self-employment policies as the main labour market policy to solve the market failure of unemployment. These policies are supposed to alleviate the unemployment resulting from the necessary reforms and initiatives meant to restructure the economy and institutions of government for a trade-liberalized world (Tendler *op. cit.*, 3). An important point of that strategy is to lower taxes to encourage citizens to set up their own businesses since it is believed that high taxes inhibit entrepreneurialism and/or force business to remain informal (*ibid.*, 4-5).

However, the ex-recipients whom we interviewed in the focus group had considered starting up their own businesses, but only as a last resort since later on they might try to find a job in which they could have benefits such as health security, fringe benefits and especially a sustained income, in spite of the fact that most of them were helping in the family business at the time that we interviewed them. For instance, for the government training services, one of the main reasons why the ex-recipients found them unhelpful was precisely that the courses offered are only linked to self-employment and that there were very few courses which would enable them to obtain employment in an enterprise. Furthermore, the most-used government employment services were the employment fairs at the municipal level mainly because, according to one of the ex-recipients, there is a real encounter there with the enterprises and they could

talk to them and know more or less what chances they have of obtaining a job and the benefits offered.

Moreover, in spite of the fact that, as shown in Chapter 5, the Mexican state, in its three levels of government, has implemented different programmes with the purpose of opening access to finance to the poor so that they employ themselves, none of the ex-recipients whom we interviewed had requested any finance from the state. According to the focus group interview, this was mainly because they do not know about these programmes, and secondly because their perception of the state is that the procedures for obtaining the finance are time-consuming and tricky and that it takes a long time to receive an answer. During our fieldwork, we had the chance to interview a couple of small-scale manufacturers of teddy bears. Among the informal occupations of Toluca, this is one of the most popular and when we asked if they had requested finance from the state to increase their production, they gave us the same answer as the ex-recipients of the focus group: that the procedures are time-consuming and tricky since the governants normally do not deliver what they promise.

Tendler argued that in Brazil, to some extent, the success of these policies is due to the fact that municipalities have been able to engage effectively with micro-entrepreneurs forming clusters to help them increase their wholesale and retail trade but at the same time taxing them to increase the possibilities of formalizing them (*op. cit.*, 8-10). On the other hand, as explained in Chapter 5, although providing access to finance policies in Mexico has the intention of forming clusters, most of the micro enterprises are informal. That is, they are not registered with the social security and/or fiscal institutions and in



consequence workers or owners do not have access to labour contracts and social security services and are not covered by minimum wage legislation.

Although we did not ask the ex-recipients whether their own or their family businesses were formal or informal, we did ask them whether they trusted the way that the state uses the taxes that they pay, and their responses showed that they not only perceived social spending as regressive but also that the governants are corrupt.<sup>110</sup> Moreover, we asked the ex-recipients for their opinion of the taxation system and they agreed that it was complicated, the same as the results of the survey, despite the fact that, as was explained in Chapter 5, in recent years there has been administrative simplification which has made it very easy for micro-businesses to pay tax, due to the negative perception of the governants. Furthermore, the ex-recipients also mentioned the need for permits from the government to open a business, despite the fact the municipality of Toluca has the Quick opening-a-business system, which is supposed to make it easy to open a micro-business within 48 hours.

In addition, although they complained about the low quality of the public services, they stated that they had never attended any of the Coplademun meetings, which is supposed to be the organization in charge of working with the citizens at the municipal level so that their demands can be fulfilled, because they did know anything about it. All of which would suggest, as argued before, that contrary to the idea that high taxes force micro-enterprises to remain informal, the problem is that micro-entrepreneurs do not pay taxes because they do not have incentives to do so since social spending is

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<sup>110</sup> Accordingly, on average the Mexican and Latin American people interviewed by Latinobarómetro 2009 answered that between 2007 and 2009 they perceived very little progress on reducing corruption in state institutions and in another question they answered on average that it was not guaranteed at all that wealth was justly and fairly distributed in their countries.

regressive and discretionary, which impedes the state from formalizing the enterprises to increase their opportunities to survive.

#### **6.4 Conclusions**

In this chapter, we have analysed the extent to which the neo-liberal ideology of the Washington Consensus reforms has shaped the ex-recipients' behaviour in the occupational realm. We have argued that, contrary to the neo-liberal ideology of the Washington Consensus reforms, which assumes that state intervention to help the poor through cash transfers and social provision creates perverse incentives for them not to move out of poverty by their own efforts, it is the weakness of the institutional capacities of the Mexican state which has impeded the *Oportunidades* programme from enabling the poor to obtain sustained income in the labour market to move out of poverty by their own efforts. This would suggest that if neo-liberal policies were accompanied by strong institutionalization of the labour market, the poor might be able to expand their capabilities to obtain sustained income to move out of poverty by their own efforts.

As far as the regulatory-market capacity of the state is concerned, the ex-recipients' perception is that they have limited access to impartial and impersonal state and workers' organizations that protect their rights, since, on the one hand, because corruption law enforcement is normally in favour of the patrons since they can pay for prestigious lawyers to represent or advise them and this is the only way to ensure that the law is applied correctly. On the other hand, the ex-recipients perceive the unions to be a tool used by the private sector to organize the workers and make them accept their labour conditions rather than to protect workers' rights. All of which has contributed importantly to

employment being institutionalized, informally, as short-tenured with minimal benefits.

In the case of the fiscal capacity of the state, we have confirmed that, on the one hand, the ex-recipients believe that it is necessary to have a BA to increase their capabilities to obtain sustained income. However, they perceive the (institutional) process for entry as non-transparent, which makes them focus on studying at a technical high school rather than planning a career with a BA. Finally, contrary to the neo-liberal ideology of the Washington Consensus reforms that self-employment policies are the labour market policy that will solve the market failure of unemployment, the ex-recipients preferred to have sustained employment that allows them to make plans in the long run, mainly due to the fact that they have limited access to resources and activities that would allow them to expand their capabilities to obtain sustained income, which creates a culture of dependency on passive employment since they see active employment as more difficult to succeed in.

## CHAPTER 7

### CONCLUSIONS

#### Introduction

This chapter presents the main conclusions and wider implications of the empirical analysis of the role of the state in alleviating poverty in Mexico. The central argument is that the *Oportunidades* programme has failed to enable the recipients to obtain sustained income in the labour market that would allow them to escape out of poverty due to the lack of effective training and labour market policies that complement the programme. The core cause of that is the weakness of the institutional capacities of the Mexican state, which has impeded the creation of some of the necessary conditions so that the poor can obtain sustained income in the labour market that would allow them to escape poverty. A particularly important variable was the implementation of the structural reforms during the 1980s, which meant the withdrawal of the state from its substantive roles as coordinator and distributor of resources.

Accordingly, throughout this thesis we have argued that with an impartial and impersonal institutional framework that ensures the freedom of any citizen or group of individuals to organize and pursue their social, political and economic goals, there is a greater likelihood of the alleviation of poverty. However, the further establishment of an impartial and impersonal institutional framework alone will not guarantee greater socio-economic equality. A shift in the ideology behind the developmental strategy of the Mexican state is also necessary in order to take into account the interests of the citizenry in the

decision-making process, especially of those at the bottom of the social structure, to achieve greater socio-economic equality.

In the previous three empirical chapters, we have analysed the extent to which the weakness of the institutional capacities of the Mexican state impedes the ex-recipients of the *Oportunidades* programme from obtaining sustained income in the labour market that would allow them to move out of poverty. Throughout this chapter, we shall try to address the issues which we have analysed in the empirical chapters and to frame them within the theoretical framework that we discussed in the first part of the research. The aim is to clarify what the role of the Mexican state is in alleviating poverty and the extent to which the weakness of its institutional capacities has led to failure in poverty alleviation by impeding the ex-recipients of the *Oportunidades* programme from obtaining sustained income in the labour market.

The chapter is structured as follows. Section 1 provides an overview of the main empirical findings of this work. Section 2 discusses the implications of this thesis for the role of the state in alleviating poverty in a middle-income country such as Mexico. Section 3 presents concluding remarks about the institutional capacities of the Mexican state. Finally, section 4 presents an analysis of the latest reforms of the Mexican government to the labour market institutions.

## 7.1 Main empirical findings

The central aim of this thesis was to understand better the role of the Mexican state in alleviating poverty and the extent to which the weakness of its institutional capacities impedes it from fulfilling it. We began addressing our research question by exploring the logic of the main anti-poverty policy that the Mexican state and some other countries in the Latin American region have implemented in the last two decades. As argued in the Introduction and in Chapter 2, the logic of the so-called Conditional Cash Transfer (CCTs) programmes is to provide a minimum income to the poorest so that they invest it in the education and health of their children, who, once educated and healthy, would acquire capabilities that would enable them to keep on obtaining an income in the labour market in the mid and long-term to move out of poverty by their own efforts. We claimed that much of the previous research about these programmes has focused on highlighting the positive effects on the well-being of the recipients, such as the increase in school attendance or in health checks and reducing income inequality while families or recipients belong to the programme, among other short-term effects. However, there were very few studies that have offered real evidence showing whether or not the recipients are able to obtain sustained income in the labour market.

In this context, we argued that our thesis distinguishes itself from such studies in that: 1) it examines the role of the Mexican state in alleviating poverty taking into account that poverty is a problem that requires a lot more than just access to health or education services to be alleviated. This point is relevant because while historically the Mexican state had played an important role in the coordination of the economy and the provision and distribution of basic services

such as health, education and social rights (since its creation in 1917 until the early 1970s), the structural reforms implemented during the 1980s in Mexico changed that role, causing the state to withdraw from intervening in the economy to allow the market to follow its own dynamics. And; 2) our study not only presents empirical evidence of the way in which the institutional weakness of the state impedes the ex-recipients of the *Oportunidades* programme from obtaining sustained income in the labour market, but it does so by examining the situation of the poor in urban zones. This point is worthy of note because while historically poverty has been concentrated in rural zones, the process of industrialization that took place between the 1930s and the late 1970s pushed poverty to grow in urban zones where the poor have the disadvantage that the only way to obtain an income to satisfy their needs is by selling their labour.

In Chapter 1, we introduced the theoretical framework utilized throughout the thesis, and this included our understanding of institutions and organizations of the state. We argued that the institutions and organizations of the state configure the relationships of the different actors of the social structure and determine the access to valuable resources and activities that allow the different groups of society to pursue their social, political and economic goals. In this sense, an institutional political economy analysis allowed us to consider in greater depth the extent to which the state's institutional framework limits or opens access to valuable resources or activities for the different groups of society and the political process behind it.

We then moved to a discussion of why state intervention is needed to alleviate poverty. Building on the insights offered by contributions to the institutional political economy tradition, we argued that state intervention to

coordinate the economy is needed because there are markets (labour, natural resources and money) that cannot be left to follow the supply and demand logic because they are not commodities that can be traded. Should that happen, social diseases such as poverty would appear because in a free-market system it is the citizenry – micro-entrepreneurs, workers and farmers – who bear the costs of the market failures. Consequently, the state has to intervene to adjust the supply of money and credit to avoid the destruction of micro and small enterprises, to implement labour market policies to avoid unemployment, and to maintain continuity in the production of natural resources by protecting farmers from imports in order to avoid social diseases such as poverty from appearing or worsening.

We then undertook a discussion about the role of the state in alleviating poverty under the poverty paradigm on which the CCTs like the *Oportunidades* programme are based. Within the so-called capabilities approach, poverty is understood as the impossibility of carrying out autonomous life projects, since poor people lack equal opportunities to access valuable activities and resources such as education and health services which allow them to move out poverty. This paradigm has been operationalized under the logic that with access to health and educational services, the poor will acquire capabilities that will increase their opportunities to obtain sustained income in the labour market that would allow them to move out of poverty, bringing the state back as an important actor for the distribution of those services and for the implementation of labour market policies that would allow the poor to obtain an income in the mid and long term. Finally, we discussed how states can intervene in the labour market to alleviate poverty through their institutional capacities, drawing on the



successful experiences of different states of the developing and the developed world. We highlighted, for instance, how countries in East Asia, Scandinavia and some countries in Latin America, such as Brazil, have shown that strong institutionalization of the labour market (high levels of social spending, effective law enforcement, access to union representation and so on) has mattered more to poverty alleviation than high educational levels.

In Chapter 2, we briefly discussed how the economic model of the Mexican state before the implementation of the structural reforms of the 1980s seemed to be more socially inclusive than in the last three decades, particularly due to the extensive social rights that were negotiated by the labour movement and thus more conducive to alleviating poverty than the current model. However, the weakness of the institutional – regulatory-market and fiscal – capacities of the Mexican state have contributed importantly to determining the negative outcomes of the development strategies followed before and after the implementation of the structural reforms in the 1980s. The difference between the two periods was mainly the shift in ideology behind the overall development strategy of the state, which brought about the withdrawal of the state from the coordination of the economy and distribution of the services in the latter period, which exacerbated even more the socio-economic inequalities of the population.

In this sense, it was important to uncover the extent to which the institutional weakness of the Mexican state could impede the *Oportunidades* programme from achieving its main goal. More precisely, we needed to expose the extent to which the institutional weaknesses of the Mexican state impede the *Oportunidades* programme from enabling the poor to obtain sustained

income in the labour market that would allow them to move out of poverty. The main question that we tried to answer in the analytical chapters of the thesis and that guided the design of the empirical methods of research in our field work was: to what extent does the weakness of the institutional capacities of the Mexican state impede it from alleviating poverty?

Consequently, in Chapter 3, we constructed a methodology aimed at uncovering the extent to which the weakness of the institutional capacities of the Mexican state impedes the *Oportunidades* programme from enabling the poor to obtain sustained income in the labour market. Following our ontological and epistemological positions, we combined qualitative and quantitative data collection techniques in order to approach the best possible explanation of our problem, which included qualitative interviews and a questionnaire. We also discussed how we used random sampling techniques to select the poor for interviews and how we selected the State of Mexico and Toluca as sites to carry out our fieldwork.

In Chapter 4, we sought to answer our question partially: to what extent does the weakness of the institutional capacities of the Mexican state impede it from alleviating poverty? Following the theoretical framework that we discussed in Chapter 1, we showed that the weakly institutionalized bureaucratic apparatus of the Mexican state in charge of applying the law in the world of labour impedes the state from harnessing the interests of the private sector into areas of public interest while helping them to maintain or increase their productivity. This is mainly due to the clientelist practices that permeate the organizations in charge of monitoring and applying labour justice, such as the inspection offices and the boards of conciliation and arbitration respectively,

who in the exercise of their functions end up benefiting the private sector to avoid job destruction rather than protecting workers' rights.

In the case of the monitoring offices at both the federal and state levels, the public servants not only lack enough inspectors with the necessary capabilities to make the enterprises comply with the law, but also the ideology behind their job is that it is preferable to keep the enterprises running to avoid destroying employment, even though workers' rights are unprotected. As shown in Chapter 4, the worst case perhaps is the state level (State of Mexico), where there is no civil service system in those organizations, especially because this is the level of government in charge of inspecting and monitoring the goods and service sectors, which is where there are more workers in terms of numbers and where the less-qualified jobs are.<sup>111</sup> On the other hand, in the case of the boards of conciliation and arbitration, although they are supposed to be autonomous bodies, they are under the wing of the executive power since the heads of the offices of those boards are appointed directly by the federal and state executive powers respectively, which, as argued above, normally seeks to benefit the private sector rather than to protect workers' rights, in order to avoid job destruction. Accordingly, the opinions of the ex-recipients as far as the impartiality and impersonality of the application of labour justice in the world of labour were mainly negative.

We argued as well that this was partly a consequence of the fact that the private and political elites have been limiting access to forming or belonging to organizations that represent workers' interests because they consider them to be obsolete and no longer part of the new economic model. This, on the one

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<sup>111</sup> As explained in Chapters 2 and 4, municipalities do not have any participation in the inspection or the resolution of conflicts between workers and the private sector.

hand, has impeded the labour movement from using its political power to claim social rights. On the other hand, there is no third party enforcement which can bring about a situation in which the different incumbents in the world of labour monitor each other, ensuring that the law is enforced impartially and impersonally. Accordingly, the opinions of the ex-recipients were that although the enterprises use the unions to keep workers under control, they still see unions as the most important organizations to keep sustained employment. The result of this is an increase in the levels of labour informalization and short job tenure since the enterprises, in order to lower their production costs, offer only short-term contracts with very low salaries (especially because they do not share the profits according to law) and without access to benefits such as training or social security services in most of the cases.

Chapter 5 also demonstrated that due to the institutional weakness of the fiscal capacity of the state, it has not been possible to increase the skills of the citizens and their access to active labour market policies that would allow them to obtain sustained income. We argued that the federal level has tried to maintain its power over access to public resources, which has impeded the improvement of the institutional and administrative capacities of the lower levels of government and consequently has made it difficult to use expenditure as a tool for alleviating poverty and in this way to justify greater tax collection. In the case of education, the federal level has kept for itself not only the collection and distribution of fiscal resources but also the policy-making of the education system, all of which has brought about a weak correlation between the skills acquired in formal education and those needed in the labour market, which has reduced the opportunities of the ex-recipients of the *Oportunidades* programme

form obtaining sustained income as shown above. Moreover, instead of helping the local levels to improve their institutional capacities to participate in the provision of higher education (BA level), the federal level has allowed the private sector to step in, and this has brought about a wide educational gap between the rich and the poor since it is difficult for the poor to reach that study level which, according to our results, is the level that could make a difference as far as finding sustained employment is concerned. Accordingly, the ex- recipients who we interviewed answered that one of the main constraints that had impeded them from achieving access to employment was the lack of a Bachelor degree and we found no difference in the job opportunities between those who studied at technical and at general high schools.

We also showed the way in which the federal government has prevented the lower levels of government from having a greater participation in the National Fiscal Coordination System. On the one hand, not only does the federal government collect around 90% of the total revenues of the Mexican state, but also the National Fiscal Coordination System is not properly regulated since the federal level, in order to avoid political costs, has decentralized some taxes to the state level without regulating them properly. Furthermore, municipalities are vaguely taken into account in the National Fiscal Coordination System since they cannot receive resources directly from the federal level, which impedes the effective delivery of public goods since this is the level that is closest to the citizens. In addition, citizenship participation in general is channelled through official organizations in order to keep citizens under control. All of which impedes the state from increasing the progressiveness of social spending and brings about distrust in the way in which the Mexican officials

make use of the resources collected, impeding the justification of greater tax collection.

As for the programmes whose purpose is to foster self-employment, the main problem would be that the ex-recipients are not interested in paying taxes, since they do not have incentives to do so and they do not trust the way in which the Mexican officials make use of the taxes, which impedes the formalizing of enterprises to increase their opportunities to survive. Moreover, those who had businesses felt that the taxation system was complicated in spite of the fact that in recent years there has been administrative simplification so that the micro-businesses pay faster and more easily than before, due to the negative perception that they have of the way in which the taxes collected are used. As a consequence, most of the ex-recipients had not considered opening a business since they preferred sustained employment that would allow them to make plans in the long run and to have access to benefits such as social security services. Accordingly, none of the currently available access to finance programmes at the three levels of government was used by the ex-recipients in spite of the fact that these programmes are one of the main employment-generation policies of the state at the federal and local levels, and that the ex-recipients signalled a lack of finance as the main constraint to starting up a business.

In the penultimate chapter of this thesis, Chapter 6, we presented an analysis of the extent to which the neo-liberal ideology of the Washington Consensus reforms has shaped the ex-recipients' behaviour in the occupational realm. In this way, we were able to complement the findings reported in the

previous chapters to understand in a better way the extent to which the weakness of the institutional capacities of the state impedes the *Oportunidades* programme from achieving its main goal. We argued that, contrary to the neo-liberal ideology of the Washington Consensus reforms, which assumes that state intervention to help the poor through cash transfers and social provision creates perverse incentives for them not to move out of poverty by their own efforts, it is the weakness of the institutional capacities of the Mexican state which has impeded the *Oportunidades* programme from enabling the poor to obtaining sustained income in the labour market to move out of poverty by their own efforts.

As far as the regulatory-market capacity of the state is concerned, the ex-recipients' perception is that, on the one hand, because corruption law enforcement is normally in favour of the patrons since they can pay for prestigious lawyers to represent or advise them and that is the only way to ensure that the law is applied correctly. On the other hand, the ex-recipients perceived unions to be a tool used by the private sector to organize the workers and make them accept their labour conditions rather than to protect workers' rights. All of which has contributed significantly to employment being institutionalized, informally, as short-tenured with minimal benefits.

In the case of the fiscal capacity of the state, on the one hand, the ex-recipients perceive the (institutional) process for entry to the public universities as non-transparent, which makes them focus on studying at a technical high school rather than planning a career with a BA. Finally, contrary to the neo-liberal ideology of the Washington Consensus reforms that self-employment policies are the labour market policy that will solve the market failure of

unemployment, the ex-recipients preferred to have sustained employment that allows them to make plans in the long run, mainly due to the fact that they have limited access to the resources and activities that would allow them to expand their capabilities to obtain sustained income, which creates a culture of dependency on passive employment since they see active employment as more difficult to succeed in.

## **7.2 Conclusions: The role of the state in alleviating poverty**

In this section, we shall spell out the wider implications of our research in relation to the existing literature about the role of the state in alleviating poverty in a middle-income country such as Mexico. More precisely, we aimed at expanding the existing literature in at least five ways. First, we empirically examined the role of the state in alleviating poverty (understood as increasing the capabilities of the poor through access to basic services such as education and health that would allow them to increase their opportunities to obtain sustained income in the labour market, thus equalizing their socio-economic conditions) in urban zones of a middle-income country. Our analysis suggests that the Mexican state will be unlikely to alleviate poverty because the weakness of its institutional capacities impedes the provision of training and labour market policies that complement the programme and enable the poor to obtain a sustained income in the mid and long run. Complementing the *Oportunidades* programme with training and labour market policies in urban zones is especially important because, as we have argued, nowadays more than 60% of the whole population works in the service sector, most of them in complete informality without access to labour contracts, training or social



security services, and they are not covered by minimum wage legislation, which impedes them from obtaining sustained income in the mid and long run.

Second, we advanced the discussion about the importance of institutions for the working of human society and the socialization of individuals. As previously explained, the logic of the capabilities approach, which *Oportunidades* is based on (where poverty is broadly understood as the impossibility of carrying out autonomous life projects, since poor people lack equal opportunities to acquire or access the means to pursue their projects), brings in the state as an essential actor in the alleviation of poverty by emphasizing the importance of opening access for the poor to basic services such as education and health, which would allow them to increase their capabilities of obtaining a sustained income in the labour market. However, as discussed in Chapter 1, the capabilities approach falls short in explaining the causes or consequences of unequal distribution or redistribution of public services and resources that bring about the inequalities in acquiring the necessary capabilities to obtain sustained income in the labour market. As a consequence, this makes the paradigm difficult to employ in contexts of high socio-economic inequality such as in Mexico, where, among other important factors, the institutional weakness of the states is one of the key causes that prevent the equal distribution of resources and services that could have an impact on alleviating poverty. This thesis provides an example of the way in which the institutional weakness of the state can prevent the *Oportunidades* programme – based on the capabilities approach – from enabling the poor to obtain sustained income in the labour market that would allow them to move out of poverty by their own efforts.

Third, we also showed the importance of the institutionalization of the labour market, which, although it is a market, cannot be left to follow the supply and demand dynamics because it includes human beings who cannot be treated as commodities. As shown throughout the thesis, in spite of the positive results of the programme in increasing the school attendance of the recipients, the withdrawal of the Mexican state from its substantive roles as coordinator of the economy and distributor of resources has contributed significantly to bringing about an informalization of labour of different types and to varying degrees, especially in urban zones, since workers do not have access to social security services, stable contracts, union representation, access to finance, training schemes and so on. All of this has impeded the *Oportunidades* programme from enabling the recipients to obtain sustained income that would allow them to move out of poverty by their own efforts.

Fourth, as explained above, by the time that we started our research, there was little empirical evidence that showed that the ex-recipients of the *Oportunidades* programme are able to obtain sustained income in the labour market that allows them to move out of poverty and/or the causes of that. Accordingly, we constructed a methodology using a mixture of qualitative and quantitative data-collection techniques which allowed us to collect appropriate information to more accurately assess the programme's main goal. Fifth, in the analysis of the CCTs as the main anti-poverty policy in many countries of Latin America, the role of the state has received relatively little attention. The conclusions that have come out of our research presented in this thesis add relevant understanding to the extent to which the state can play a more active

role in alleviating poverty through the strong institutionalization of the labour market in urban zones. Some of these are summarized next.

### **7.3 Concluding remarks: The institutional capacities of the state**

The analytical framework that we have presented in this chapter suggests that the capacity of states to fulfil their functions stems from the way in which their institutional framework supports complex and specialized organizations through which the different groups in society can pursue their social, political and economic goals, irrespective of the personal identity of the leaders. Accordingly, we identified those institutions and organizations that can have an important contribution in the creation of the conditions that allow the poor to obtain sustained income in the labour market as those related to the regulatory and fiscal systems. As for the Mexican case, we argued that the weakness of the institutional capacities of the state make poverty alleviation much less likely to occur because of the influence of the private and political elites, which has negatively affected the creation of some of the necessary conditions so that the poor can obtain sustained income in the labour market.

Due to the institutional weakness of the regulatory-market capacity of the Mexican state, the private sector was able to flexibilize the labour market institutions informally, bringing about high levels of informalization and short job tenure. It happened like this for the following reasons. First, the weakly institutionalized bureaucratic apparatus to monitor and apply labour justice to make employers comply with the law, helping them at the same time to increase or maintain their productivity to foster employment growth brought about a *modus operandi* within the enterprises by which, in order to diminish their costs,

they started to outsource labour and/or goods and services, taking advantage of the fact that outsourcing has many gaps in the Mexican labour norms and regulations. Second, the limited access to workers' organizations that provide third-party enforcement in the world of labour constrains workers from exercising their political rights and in consequence the achievement of social rights. As an instance, most of our respondents had low-qualified jobs with short-term contracts and very low salaries and without access to benefits such as training, union representation or social security services in most cases.

The institutional weaknesses of the other capacity examined – the fiscal system – also stems from the pervasiveness of the patron-client practices that structure the state-society relationships. In this case, however, it is more a political issue rather than an administrative one. First, not only is the Mexican state still dependent on oil revenues, which represent almost 40% of the whole revenue of the Mexican State, but also, the private sector has been granted many tax exemptions in order to lower its costs to attract local and international investment, especially the manufacturing sector. Second, the federal government has kept tax collection for itself (just over 90% of all tax collection) and the provision and decision-making process of key services such as education in order to avoid losing control over access to those services, and this impedes the local governments from improving their institutional and administrative capacities. Third, citizenship participation has been channelled through official organizations in order to keep people under control, which constrains the capacity of the state to increase the progressiveness of social spending and justify greater tax collection since people do not trust the government. As an instance, most of our respondents answered that they did

not trust the way in which their taxes are used, meaning that they are reluctant to pay them. This is also the case with the owners of micro-enterprises, which in turn constrains the possibility of formalizing those businesses, reducing their chances of obtaining sustained income.

#### **7.4 Current reforms to the Mexican labour market institutions**

In this thesis, we have discussed how the institutional weakness of the Mexican state impedes the state from supporting autonomous and complex organizations through which the society can freely pursue its social, political and social goals, and this is what allowed the private sector to succeed in informalizing the Mexican labour market. We have also seen that the informal adjustment of the labour market institutions by the private sector elites, under the indulgence of the political elites, has brought about high levels of informalization that leave the poor vulnerable to falling into poverty again. Moreover, as argued in Chapter 2, what distinguishes the Mexican labour market from those of other countries in Latin America is that in spite of the structural reforms implemented during the 1980s, the world of labour did not go through any kind of formal reform until 2012.

On 30 November 2012, one day before President Calderón (2006-2012) of the right-wing political party PAN left the presidency of Mexico, the first thorough reform of the Employment Law (LFT) since 1970 was enacted. The new Mexican president from PRI, Enrique Peña Nieto (2012-2018), not only saw his inheritance from his party's neo-liberal political party friend (PAN) positively, but also stated that the reform would help to protect workers' rights. The reality is that the changes introduced to the law responded to the interests

of the private sector, who took a big further step, influencing the institutionalization of the informal changes that they had promoted since the early 1980s, and we have commented on that in previous chapters. As a matter of fact, according to Bensusam, the reform had not been passed in exchange for the support of the CTM and other labour unions to establish a restrictive wage policy to avoid inflation after the implementation of the structural reforms and the privatization of social security during the 2000s, which is the reason why the Mexican state allowed the informal flexibilization of the labour market institutions in the meantime (2008, 31).

As an instance, the new law now covers outsourcing but leaves many gaps that the private sector can take advantage of, since it introduced new flexible ways of hiring and firing, such as probationary and initial training contracts, that allow employers to hire workers for up to six months, being able to end the labour relationship whenever they want. Furthermore, although the law specifies that whoever uses outsourcing to reduce labour rights will face high fines, it still leaves in the air how inspectors will do this if, as we saw in Chapters 2 and 4, there is only a very small number of inspectors and the ideology behind their function is that of a compliance-guide and advisory body rather than to impose strict sanctions.

As argued in Chapter 4, in Mexico the federal level is in charge of monitoring labour conditions in most of the industrial sector, where there is most investment of capital. On the other hand, the state level is in charge of monitoring labour conditions in most of the service sector, where there is little investment of capital but there are potentially more workers. According to what we have seen so far, this division would fit in with the idea that there are

potentially more rents in the high-industry level than in the service sector. On the positive side, the reform of the employment law now gives the federal level the responsibility for inspecting the service sector as well. However, again, there is still the problem of how inspectors will do this.

In the case of labour justice, some positive changes have been made, such as the fact that the local and federal Boards of Conciliation and Arbitration will now be forced to implement a civil service system. The problem here is that the implementation of these systems will be developed by the head of the Boards and not by a special institute or a different organization in charge of ensuring that the system works with transparency, and this might leave the functioning of the system as very discretionary, as with the LSPC at the federal level.

As for the unions, the law did not introduce changes that could open access for workers to organize and use their political power to claim social rights. On the contrary, the unions are more than ever controlled by the executive power since they now have more responsibilities to fulfil, such as declaring their heritage and making public their collective contracts should they want to be registered with the Ministry of Labour. The rationale here, according to the Mexican executive power, is that unions' functioning cannot be inspected or monitored and this is the reason why all that can be done is to make public which unions are transparent and which are not.

Additionally, the labour reform of 2012 seems to have the intention of having the economic and social policies also working as one. Now the Ministry of Labour and the Ministry of Economy are forced to work together to increase the productivity of micro and small enterprises through the provision of the

programmes referred to in Chapter 5 which provide advice and access to finance. The same is the case for the Ministry of Labour and the Ministry of Education, which are now forced to work together in order to develop a national catalogue of occupations that links the labour market and formal education. However, not only are they by-passing some other important links between ministries such as the necessary collaboration between the Ministry of Economy, the Ministry of Labour and the Ministry of Treasury so that inspectors can be prepared both to enforce the law and to increase the productivity of enterprises, but also they leave the way in which they have to operate at the discretion of the heads of the ministries without clear rules on how to proceed.

As for the fiscal system of the state, the current Mexican president Enrique Peña Nieto, from the PRI political party, sent a proposal to the Congress in early September 2013, which, at the time of the writing of this chapter, has not been completely approved. However, the main changes proposed are twofold. First, instead of helping the local levels to improve their institutional capacities, the federal executive is proposing to centralize spending on education and health completely “to improve the effectiveness of the allocation of resources”, which would mean the reversal of the process of decentralization initiated in the 1980s and 1990s. Moreover, as previously argued, education and health are the two social areas on which the state spends the most; by centralizing social spending in these two areas the federal executive power would be in charge of both collecting and spending around 90% of the whole revenue of the Mexican state, which was what allowed the PRI political party to control the different social groups - through clientelist practices – before the opening of the economy, when the MNCs and the BGs



became stronger than the Mexican state. So, it seems that the Federal government is trying to strengthen its position to be able to negotiate with the different social groups. However, this strengthening could also bring about the perpetuation of the PRI political party in power one more time. Second, Peña Nieto is proposing to continue institutionalizing self-employment as one of the main employment generation strategies of the Mexican state. As a matter of fact, the National Institute of the Entrepreneur (*Instituto Nacional del Emprendedor* in Spanish) was created in early 2013. However, as shown above, the ex-recipients that we interviewed preferred to have sustained employment that allows them to make plans in the long run, mainly due to the fact that they have limited access to resources and activities that would allow them to expand their capabilities in the occupational realm. On the positive side, this active labour market policy is supposed to be complemented by the implementation of unemployment insurance, the creation of a universal health system and the reinforcement of the law enforcement capacities of the state in matters related to the supply of credit. However, we still have to see, on the one hand, whether the Mexican state is capable of collecting enough revenue to make these labour market policies sustainable in the mid and long run, since, as argued above, the Mexican state depends greatly on oil revenues (more than 40% of the whole revenue) to finance its social spending. On the other hand, we still have to see whether the reinforcement of the law enforcement capacities in matters related to the supply of credit can overcome the clientelist practices that permeate the institutional framework of the Mexican state and encourage the banking system to open access to finance for the citizenry.

## **APPENDICES**

### **Appendix 1**

#### **List of people interviewed**

1. Members of staff of the General Direction of Inspectorate of the Ministry of Labour of the State of Mexico.
2. Juan García and Francisco Ramírez, small manufacturers of teddy bears.
3. Head of Human Resources at a small company that manufactures automobile seats.
4. Antonio Tajonar, ex-member of the automotive cluster which operated in the State of Mexico between 2008 and 2010.
5. Ricardo Treviño Chapa, General Director of Revenue of the Ministry of Finance of the State of Mexico.
6. Soraya Pérez Munguía, Executive Director of the Institute of Treasury of the State of Mexico.
7. Heads of the Human Resources and the Accountancy departments of an MNC specializing in the manufacture of a detergent.
8. Werner Christof Maletz Ramírez, Head of the Employment Office in Toluca.
9. Head of the Revenue Office in Toluca.
10. Benjamín González, member of staff of the Human Resources department of Toluca.
11. Martín Zamalvide Tortt, Evaluation Consultant of the National Programme of Microenterprise Finance (PRONAFIM) of the Federal Ministry of Economy.
12. Miguel Ángel Muñoz Arámbula, federal representative of the National Fund of Social Enterprises (FONAES) in the State of Mexico.

13. Pablo Valdovino Romero, Head of the Municipal Institute of *Toluqueño* Entrepreneur (FONTOL).
14. Raul Ángel Otero Díaz, Head of the Entrepreneurial Institute of the State of Mexico (IME).
15. Head of the business management consultancy of the Autonomous University of the State of Mexico (UAEM).
17. Ing. Jesús Serrano Landeros, General Director of Heavy Industries in the Federal Ministry of Economy.
18. Carmen Arzate Martínez, Head of the Regional Office of Employment of Toluca of the Ministry of Labour of the State of Mexico.
19. Members of staff of the General Direction of Training and the National Service of Employment in the Federal Ministry of Labour.

Note: We have omitted the names of some of our interviewees at their request at the time they agreed to be interviewed. In the case of the interviewees listed above as numbers 3 and 7, we also omitted the name of their employing organization at their request.

## Appendix 2

Questionnaire: English Version

No. \_\_\_\_\_

### QUESTIONNAIRE ABOUT THE LABOUR AND EDUCATIONAL LOCATION OF THE *OPORTUNIDADES* PROGRAMME'S EX-RECIPIENTS.

**Objective:** To identify the main constraints that ex-recipients of the *Oportunidades* programme face when they try to obtain sustained income in the labour market.

First of all, thank you very much for completing this questionnaire. This questionnaire is completely anonymous so it is not necessary to write your name anywhere on the document. No-one will know who has completed this questionnaire. The responses to these questions will be used for my doctoral thesis and nothing more since I am not part of, or connected to the Ministry of Social Development team, and the grant of your family members is not conditional on you completing this questionnaire.

Please, for each question only choose one response, unless the question indicates otherwise.

#### Section 1

1. - Gender: F  M

2. - Age: \_\_\_\_\_

3. - Marital status:

Single  Married  Divorced  Free Union

4.- Place of birth: \_\_\_\_\_

5.- Municipality you work, study or try to work and / or study currently?

a. Valle de Toluca      b. Valle de México      c. Distrito Federal

d. Other (specify) \_\_\_\_\_

6.- Year in which you finished high school?

7.- Education:

- a) General High School Diploma  b) Technical High School Diploma  c) Bachelor of Arts completed
- d) Currently studying a Bachelor of Arts  e) Currently studying a Bachelor in engineering  f) Currently studying a Bachelor in sciences
- g) Truncated degree  h) Bachelor in engineering completed  i) Bachelor in Science completed
- k) Other (specify)\_\_\_\_\_

### 8.- What do you do?

- a) Student  b) Employee  c) Own business (specify)\_\_\_\_\_
- d) Study and work  e) study and own business (Specify)\_\_\_\_\_  f) Unemployed

## Section 2

9. - ¿Do you consider that labour inspectors properly monitor and inspect compliance with labour norms and regulations in the companies where you have worked?

Yes  No

10.- If you answered NO to the previous question, please indicate why

- a) There are very few inspections  b) There is corruption to avoid sanctioning the employer  c) Inspectors are not specialized enough to advise and/or enforce the law

11. With what level of impartiality and impersonality do you believe that the labour norms and regulations are enforced in the resolutions of conflicts between workers and employers?

Very low      low      Average      High      Very high

12.- If you answered low or very low in the previous question, indicate the main reason you chose that answer.

- The rights of the workers are  Trials take too long to finish  Workers are not properly advised on  Other

disregarded to  
benefit the  
employer

how to defend  
their rights

13. - Do you consider it worthwhile to invest your time and pay fees to form unions or workers' organizations that represent your interests to companies?

Yes  No

### Section 3

14. - Complete the following information about your formal or informal current job/occupation.

Concept	Current job
Post	
Type of contract	1. Undefined <input type="checkbox"/> 2. Temporary <input type="checkbox"/> 3. No Contract <input type="checkbox"/>
Name and nature of company/organization	
Access to social security services	1. Yes <input type="checkbox"/> 2. No <input type="checkbox"/>
Hours of work per week	
If you have worked overtime, did you get paid as set by law?	1. Yes <input type="checkbox"/> 2. No <input type="checkbox"/> 3. Do not work overtimes <input type="checkbox"/>
Monthly wage?	
Do you receive your profit sharing as stated in the law?	1. Yes <input type="checkbox"/> 2. No <input type="checkbox"/>
Access to workers' organizations that represent your interests?	1. Yes <input type="checkbox"/> 2. No <input type="checkbox"/>
Constant training?	1. Yes <input type="checkbox"/> 2. No <input type="checkbox"/>

15. - In your opinion what is the most worrying issue about your working conditions?

- a) Wage/Salary  b) inequality and abuse  c) Risks at Work   
 d) Lack of access to social security services  e) Temporary employment  f) lack of training   
 g) Other (Specify)\_\_\_\_\_

16. How many Jobs have you had since you finished high school?

17.- What is the maximum amount of time that you have remained unemployed?

18. - If you are or have been an employee in complete informality (No contract, no kind of social security, no access to organizations that represent your interests), please indicate why you chose that kind of employment.

- a) Wage  b) Flexibility of schedule  c) To gain experience   
 d) Did not find formal employment  f) Other (Specify)\_\_\_\_\_

#### Section 4

19.- What is the main constraint that has hampered you from obtaining sustained employment?

- A) Lack of experience  B) Lack of training  C) Maternity   
 D) There are no jobs  E) Lack of BA  f) None   
 G) Other (specify)\_\_\_\_\_

20.- What has been the main constraint that has impeded you from continuing studying to the BA level?

- a) lack of financial resources  b) I did not want to continue studying  c) I did not pass the exam to study at a public university   
 f) Other (specify)\_\_\_\_\_

21.- Do you consider that the education that you had access to thanks to the *Oportunidades* program allowed you to acquire the necessary skills and abilities to find formal employment according to your experience and wage expectations?

Yes  No

22.- Do you invest your own resources to acquire more skills that allow you to obtain sustained employment or generate sustained income?

Yes  No

23.- If you answered NO to the last question please highlight the main reason.

- a) Wait to be trained by firms      b) lack of economic resources      c) other

## Section 5

24.- If you have been part of a government employment or training programme as a strategy for finding a job, please tick or mention the programme/s and indicate whether it helped you to obtain sustained employment or generate sustained income according to your capabilities, experience and wage expectations or not

- |                                  |                          |                            |                          |                                   |                          |
|----------------------------------|--------------------------|----------------------------|--------------------------|-----------------------------------|--------------------------|
| a) Municipal employment office   | <input type="checkbox"/> | b) State employment office | <input type="checkbox"/> | c) National employment service    | <input type="checkbox"/> |
| d) Municipal Job Fair            | <input type="checkbox"/> | e) State employment Fair   | <input type="checkbox"/> | f) Federal employment fair        | <input type="checkbox"/> |
| g) VAS with <i>Oportunidades</i> | <input type="checkbox"/> | h) My first job program    | <input type="checkbox"/> | i) Temporary employment program   | <input type="checkbox"/> |
| j) Workshops for job seekers     | <input type="checkbox"/> | k) BECATE                  | <input type="checkbox"/> | l) School of Arts and occupations | <input type="checkbox"/> |
| m) PROCADIST                     | <input type="checkbox"/> | n) Man Power scholarships  | <input type="checkbox"/> | o) SEP training for work          | <input type="checkbox"/> |
| p) None                          | <input type="checkbox"/> | q) Oher (Specify) _____    |                          |                                   |                          |

Yes it helped me  No, it did not help me

25. - If the programme/s did not help you to obtain sustained employment or generate sustained income according to your capabilities, experience and wage expectations, or you did not use it, please indicate why.



- a) They were poorly paid jobs  b) Procedures take a long time to be finished  c) They were temporary jobs   
 d) I did not know those services  e) I do not trust government employment services  f) It is faster to search on my own   
 g) Other (Specify) \_\_\_\_\_

26. Have you ever attended the COPLADEMUN meetings to be informed and participate in the public issues of Toluca?

Yes  Why?

No  Why?

27. If you answered NO to the last question, please indicate why.

- a) Do not know it  b) Not interested in getting involved in public matters  c) Other (specify)

28. What are the main constraints that you have faced or would face if you wanted to establish a business as a way of life?

- a) Taxation system is complicated  b) finance  c) taxes are very high   
 d) permissions  e) know how  f) h) Other (Specify) \_\_\_\_\_

29. Have you ever attended or considered attending an organization of the state for advice and/ or funding to start, expand, introduce technology or increase the production of your business? please tick the programme.

- a) Ayuntamiento municipal de Toluca(Fontol)  b) Ayuntamiento de Metepec  c) Servicio Estatal de Empleo   
 d) Instituto Mexiquense del emprendedor  e) FONAES  f) PRONAFIM   
 g) Programa de Capital Semilla  h) Centro México Emprende  i) Centros PyMe Exporta   
 j) Banca Comercial  k) Banca social  l) NO, I have never considered it.   
 m) Other (Specify) \_\_\_\_\_

30. If you have not attended or considered attending an organization of the state for advice and/ or funding to start, expand, introduce technology or increase the production of your business, please highlight the main reason for that.

- a) Procedures take a long  b) I am not interested in  c) I did not know those

time \_\_\_\_\_ having a business as a way \_\_\_\_\_ services \_\_\_\_\_  
of life

d) Other (Specify) \_\_\_\_\_

31. Indicate the level of trust that you have in relation to the way in which Mexican officials make use of the taxes that you pay

Very low                      Low                      Average                      High                      Very high

32. If you had to choose between a job with access to health security although some deductions were made from your salary or wage, or a job in which you received your full salary or wage but without access to health services, what would you prefer?

1. Working with access to social security having deductions from my wage.       2. Working obtaining full salary but without access to social security services

I hereby consent that the information I have provided in this questionnaire may be used by Christian Becerril with his research, writing and professional activities, and may be used, exhibited, and published through any medium whatsoever as part of or in connection with his research, writing, and professional activities.

Signature.....

Date.....

THANK YOU FOR YOUR PARTICIPATION!

## Appendix 3

### Research Abstract Presented to Respondents (English)

My research looks at the relationship between the institutional framework of the Mexican state, employment and poverty. The central aim of this research is to determine the extent to which the weakness of the institutional capacities of the Mexican state, among other important factors, has impeded the current Mexican CCT programme known as *Oportunidades* from enabling the ex-recipients to obtain a sustained income in the labour market. Mexico is one of the most unequal countries all over the world in terms of the concentration of wealth due to the fact that the institutional framework of the state benefits the elites instead of the citizenry, which not only constrains the poor from escaping poverty but also increases it. In this sense, our study is different from previous studies about the *Oportunidades* programme that have focused on the benefits that the programme gives to the recipients and not on the context that produces income inequality. In Mexico poverty has kept increasing even though the programme has been running for nearly 16 years and every time they include more recipients. As such, it would seem that the logic of the programme about that once educated the recipients will be able to obtain or generate sustained income has not been proved at all. The purpose of this survey is to research the extent to which the weakness of the institutional capacities of the Mexican state has impeded the current Mexican CCT programme known as *Oportunidades* from enabling the ex-recipients to obtain a sustained income in the labour market.

## LIST OF ACRONYMS

<u>ASF</u>	Superior Auditing Organism of the Mexican Federation, <i>Auditoría Superior de la Federación</i> .
<u>BGs</u>	Business Groups
<u>CCTs</u>	Conditional Cash Transfer programmes
<u>CONAPO</u>	National Council of Population, <i>Consejo Nacional de Población</i>
<u>CONEVAL</u>	National Council of Evaluation, <i>Consejo Nacional de Evaluación de la política de Desarrollo Social</i>
<u>COPARMEX</u>	Employers' Confederation of the Mexican Republic, <i>Confederación Patronal de la República Mexicana</i>
<u>COPLADEMUN</u>	Council of Municipal Development Planning, <i>Consejo de Planeación de Desarrollo Municipal</i>
<u>CTM</u>	Confederation of Mexican Workers, <i>Confederación Mexicana de Trabajadores</i>
<u>DECLARE</u>	Labour Electronic Declaration, <i>Declaración Laboral Electrónica</i>
<u>DICONSA</u>	Social supply of basic food, <i>Abasto Social de Productos Alimenticios Básicos</i>
<u>FAEB</u>	Fund for Basic and Normal Education, <i>Fondo de Aportaciones para la Educación Básica y Normal</i>
<u>FAETA</u>	Fund for Technological and Adult Education, <i>Fondo de Aportaciones para la Educación Tecnológica y de Adultos</i>
<u>FAM</u>	Fund of Multiple Contributions, <i>Fondo de Aportaciones Múltiples</i>
<u>FAM</u>	Instructor training programme, <i>Formación de Agentes Multiplicadores</i>
<u>FCNS</u>	Fiscal Coordination National System, <i>Sistema Nacional de Coordinación Fiscal</i>
<u>FIDEPAR</u>	Trust for the development of Parks and Industrial Areas in the State of Mexico, <i>Fideicomiso para el Desarrollo de Parques y Zonas Industriales en el Estado de México</i>
<u>FINNOVA</u>	Sectoral Innovation Fund, <i>Fondo Sectorial de Innovación</i>
<u>FOMMUR</u>	Microfinance Fund for Rural Women, <i>Fondo de Microfinanciamiento a Mujeres Rurales</i>

<u>FONAES</u>	National Fund of Social Enterprises, <i>Fondo Nacional de Empresas Sociales</i>
<u>FONTOL</u>	Municipal Institute of <i>Toluqueño</i> Entrepreneurs, <i>Instituto Municipal del emprendedor toluqueño</i>
<u>GATT</u>	General Agreement on Tariffs and Trade
<u>GDP</u>	Gross Domestic Product
<u>HDI</u>	Human Development Index
<u>HDR</u>	Human Development Report
<u>IBGE</u>	Brazilian Institute of Statistics and Geography, <i>Instituto Brasileiro de Geografía e Estatística</i>
<u>IFAI</u>	Federal Institute of Access to Information and data protection, <i>Instituto Federal de Acceso a la Información</i>
<u>ILO</u>	International Labour Organization
<u>IME</u>	Entrepreneurial Institute of the State of Mexico, <i>Instituto Mexiquense del Emprendedor</i>
<u>IMF</u>	International Monetary Fund
<u>IMSS</u>	Mexican Institute of Social Insurance, <i>Instituto Mexicano del Seguro Social</i>
<u>INAPAM</u>	National Institute of elderly people, <i>Instituto Nacional de las Personas Adultas Mayores</i>
<u>INDESOL</u>	National Institute of Social Development, <i>Instituto Nacional de Desarrollo Social</i>
<u>INEGI</u>	National Institute of Statistics and Geography, <i>Instituto Nacional de Estadística y Geografía</i>
<u>INFOEM</u>	Institute of transparency, access to public information and protection of personal data of the State of Mexico and Municipalities, <i>Instituto de Transparencia, Acceso a la Información Pública y Protección de Datos Personales del Estado de México y Municipios</i>
<u>ISI</u>	Import Substitution Industrialization system, <i>Sistema de Sustitución de Importaciones</i>
<u>ISSSTE</u>	Institute of Security and Social Services of the state's workers,

	<i>Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado</i>
<u>ITESM</u>	Technological Institute of Higher Education of Monterrey, <i>Instituto Tecnológico de Estudios Superiores de Monterrey</i>
<u>JFC y A</u>	Federal Board of Conciliation and Arbitration, <i>Junta Federal de Conciliación y Arbitraje</i>
<u>JLC y A</u>	Local Board of Conciliation and Arbitration, <i>Junta Local de Conciliación y Arbitraje</i>
<u>LFT</u>	Federal Employment Law, <i>Ley Federal del Trabajo</i>
<u>LGDS</u>	General Law of Social Development, <i>Ley General de Desarrollo Social</i>
<u>LICONSA</u>	Social supply of Milk, <i>Abasto Social de Leche</i>
<u>LSPC</u>	Federal Public Service Career Law, <i>Ley del Servicio Profesional de Carrera en la Administración Pública Federal</i>
<u>LSS</u>	Social Security Law, <i>Ley del Seguro Social</i>
<u>MNCs</u>	Multi-national Corporations
<u>NAFTA</u>	North American Free Trade Agreement
<u>NGOs</u>	Non-Governmental Organizations
<u>OECD</u>	Organization for Economic Co-operation and Development, <i>Organización para la Cooperación y Desarrollo Económicos</i>
<u>PAN</u>	National Action Party, <i>Partido Acción Nacional</i>
<u>PASST</u>	Self-Management Programme on Safety and Health at Work, <i>Programa de Autogestión en Seguridad y Salud en el Trabajo</i>
<u>PCEZM</u>	Programme to create jobs in disadvantaged areas, <i>Programa para la creación de empleo en zonas marginadas</i>
<u>PND</u>	National Plan of Development, <i>Plan Nacional de Desarrollo</i>
<u>PRD</u>	Democratic Revolution Party, <i>Partido de la Revolución Democrática</i>
<u>PRI</u>	Institutional Revolutionary Party, <i>Partido Revolucionario Institucional</i>
<u>PROCADIST</u>	Distance Training Programme for Workers, <i>Programa de Capacitación a Distancia para Trabajadores</i>

<u>PROCAMPO</u>	Programme of direct support to farmers, <i>Programa de apoyos directos al campo</i>
<u>PRODET</u>	Local Attorney of Workers' Defence, <i>Procuraduría Estatal de la Defensa del Trabajador</i>
<u>PRODIAT</u>	Programme for the Development of High Technology Industries, <i>Programa para el Desarrollo de las Industrias de Alta Tecnología</i>
<u>PROFEDET</u>	Federal Attorney of Workers' Defence, <i>Procuraduría Federal de la Defensa del Trabajador</i>
<u>PROGRESA</u>	Education, Health and Nutrition Programme, <i>Programa de Educación, Salud y Alimentación</i>
<u>PROIND</u>	Programme to Promote the Competitiveness of Industrial Sectors, <i>Programa para Impulsar la Competitividad de Sectores Industriales</i>
<u>PROLOGYCA</u>	Competitiveness Programme in Logistics and Supply Centres, <i>Programa de Competitividad en Logística y Centrales de Abasto</i>
<u>PRONAFIM</u>	National Programme of Microenterprise Finance, <i>Programa Nacional de Financiamiento al Microempresario</i>
<u>PRONASOL</u>	National Solidarity Programme, <i>Programa Nacional de Solidaridad</i>
<u>PROSOFT</u>	Programme for the Development of the Software Industry, <i>Programa para el Desarrollo de la Industria del Software</i>
<u>PYME</u>	Small and Medium Enterprise, <i>Pequeña y mediana empresa</i>
<u>SCJN</u>	Supreme Court of Justice of the Nation, <i>Suprema Corte de Justicia de la Nación</i>
<u>SE</u>	Ministry of Economy, <i>Secretaría de Economía</i>
<u>SEDESOL</u>	Ministry of Social Development, <i>Secretaría de Desarrollo Social</i>
<u>SEP</u>	Ministry of Education, <i>Secretaría de Educación</i>
<u>SHCP</u>	Ministry of Treasury, <i>Secretaría de Hacienda y Crédito Público</i>
<u>SMEs</u>	Small and Medium Enterprises, <i>Pequeña y Mediana Empresas</i>
<u>SNE</u>	National Employment Service, <i>Servicio Nacional de Empleo</i>
<u>SNTE</u>	National Union of Education Workers, <i>Sindicato Nacional de</i>

	<i>Trabajadores de la Educación</i>
<u>STyPS</u>	Ministry of Labour, <i>Secretaría del Trabajo y Previsión Social</i>
<u>ST</u>	Ministry of Labour of the State of Mexico, <i>Secretaría del Trabajo del Estado de México</i>
<u>UAEM</u>	Autonomous University of the State of Mexico, <i>Universidad Autónoma del Estado de México</i>
<u>UNAM</u>	Autonomous National University of Mexico, <i>Universidad Nacional Autónoma de México</i>
<u>UNDP</u>	United Nations Development Programme
<u>USA</u>	United States of America
<u>VAT</u>	Value Added Tax
<u>WB</u>	World Bank



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