

THE FAMILY FIRM CONTINUES TO DOMINATE MEXICO'S PRIVATE SECTOR

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ABSTRACT

In August of 1982 Mexico was unable to make the scheduled payments on its foreign debt. This led to a sharp devaluation of the peso, high inflation and a contraction of the economy. To restore economic growth, Mexico began adopting the so called "Neoliberal Model", a model that consists of free market policies. Crucial to the adoption of this model was the implementation of the North American Free Trade Agreement, which began operating in 1994. Later, also as part of the Neoliberal model, Mexico signed more free trade agreements, including a treaty with the European Union in 2001. Two of the expected results of adopting the said Neoliberal model were the development of a dynamic export-of-manufactures sector and the marked intensification of competition in internal markets.

Today, twenty five years after the adoption of the Neoliberal model Mexico has a very dynamic export-of-manufactures sector. Most of Mexico's internal markets, however, continue to be dominated by oligopolies and monopolies. The evolution and focus of Mexico's family firm, regardless of its size, has been primarily internal, neglectful of technological development, managed along nepotistic lines. In contrast, the export-of-manufactures sector is formed by inexpensive Mexican labor and foreign capital. These characteristics have minimized the contributions of the domestic private sector to the economic growth of the nation. To alleviate this situation some of the actions that must be taken are: establishment of transparent securities laws that facilitate the access of medium size firms to capital, improvement of the rule of law, reduction of widespread corruption, improvement of the transportation infrastructure, reduction of the complexity of business laws, drastic increase in investment in R & D, reduction of non wage-costs and elimination of the strict protection of employment.

The current administration has expressed its willingness to implement the free market policies that could facilitate the aforementioned actions. Several issues, however, preclude the implementation of these types of policies in the foreseeable future. The first of these is the surplus in the capital account and the remittances sent by Mexican workers. These inflows generate enough dollars to finance the payment of the foreign debt, thereby freeing the private sector from the need to export. The second is the opposition of the private sector and of the poor and working classes to more free market policies. The private sector opposes the free market policies because the current conditions protect domestic firms of all sizes. The poor and working classes oppose more free market policies because, from their perspective, such policies have not generated sufficient benefits.