SAMOSTASTNE ZÁROBKOVÁ ČINNOSŤ VO VIDIECKOM MEXIKU PO NAFTA

ODPORÚČANIA VEREJNÝCH POLITÍK

SELF-EMPLOYMENT IN RURAL MÉXICO AFTER NAFTA PUBLIC POLICY RECOMEMENDATIONS

Alejandro García Chaparro

ABSTRACT

During the last decade mexico has experienced important changes in different ambits: social, political, economic, institutional, etc. political participation among the mexican population increased, causing the government decision-making processes to become decentralized, the role of the public sector has been reduced, and a new social policy was directed by the government especially oriented to combat poverty. In terms of international policy, the country enjoys a more open economy and it is more integrated with the world than a few decades ago. in spite of the changes, high poverty had persist and some regions present severe underemployment.the paper concentrates in the mexican rural sector. Locations with less than 2,500 individuals are considered rural, which are characterized by problems and needs. Frequently, rural people are found in remote areas with difficult access to markets and institutions.

KEY WORDS: Rural Sector, NAFTA, Social, Political, Economic, Institutional, Poverty

ABSTRAKT

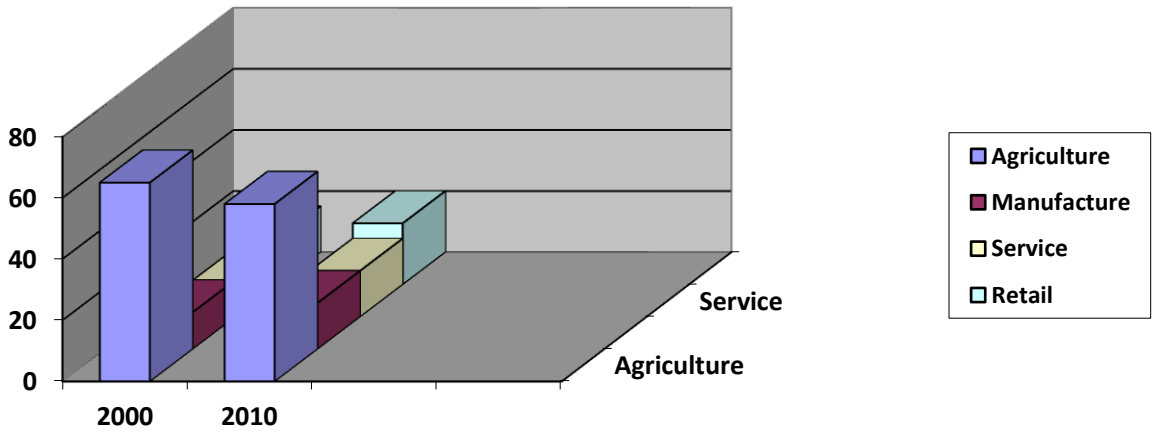
Konferenčná práca sa zameriava na mexický vidiecky sektor. Obce s menej ako 2,500 obyvateľmi sú považované za vidiecke, ktoré sa charakterizujú problémami a potrebami. Vidiečanov často nájsť vo vzdialených oblastiach s ťažkým prístupom do obchodov a inštitúcií.

KĽÚČOVÉ SLOVÁ: Vidiecky Sektor, NAFTA, Spolocensky, Politicky, Hospodarsky, Institucionalny, Chudoba

INTRODUCTION

Mexico is a country where the population whom lives in rural areas is abundant and where the agriculture is their principal economic activity, even though it has been declining during the last decade (see graph 1). The retail and service activities have gained importance in the last years among the rural economically active people.

Percent of economically active people per sector



Graph 1: Own elaboration based on INEGI (National Institute of Statistics and Geography) 2000 and 2010

The agricultural sector in the rural area employs the workers with low qualifications, the mean of year education in 2000 was approximately 3.5 years of education (elementary school incomplete) as well they have the lowest labor income. At the same time, the service sector in the rural area employs the workers with the highest level of qualification and these workers perceive the higher labor income on average.

By the early 2000s, in spite of the fact that about one-quarter of the Mexican labor force and one-third of the total population lived in the rural zone working principally in an agricultural activity, the agriculture production accounted for approximately only 5 or 6 percent of gross domestic product (GDP). This outcome was approximately the same during the last decade, and it reflects in part the low and stagnated participation of the agricultural production in the GDP.

In Mexico during the 2000s was established a reform to the Article 27 with the purpose to integrate the rural Mexico into the global economy (Luers et. al 2006). This reform allows the market to allocate resources introducing a series of privatization and liberalization polices, it was also intended to increase investment in the ejido sector by creating greater credit opportunities for the ejido[1] sector providing them a legal form of collateral. However Luers (et al. 2006) concluded that the Agrarian Reform is not leading to dramatic changes in the rural Mexico.

In 1994 the North American Free Trade Agreement (NAFTA) was established between Mexico, the United States, and Canada. The intention of the agreement was, to lower trade barriers and to implement clear regulations of commerce, to increase the trade and investment opportunities in the region. This created the largest free trade zone by area. (Lederman et. al. 2004). More than ten years later, controversies about the net effect of NAFTA persist. Globalization produces winners and losers. On the positive side,

[1] In Mexican system of government, an *ejido* is an area of communal land used for agriculture, on which community members individually possess and farm a specific parcel. *Ejidos* are registered with Mexico's National Agrarian Registry.

liberalized trade gives advantages to producers and consumers. Producers benefit from a larger supply of production factors at lower prices which results in a rise in productivity that strengthens their competitiveness in global markets. Consumers benefit from a larger supply and variety of goods at competitive price. The trade opening of the country benefited principally the commercial agriculture (dedicated to export) and it had little positive impact for the poor people dedicated to the subsistence agriculture.

The Mexican labor market has changed in the last years; the trade liberalization demands more skilled workers, more productive, able to compete. In the rural Mexico the quality of the labor force supply is significantly below the quality of demand generating unemployment. Mexican workers do not have unemployment insurance so when the creation of wage-earning jobs is insufficient the population resorts or persists in the selfemployment and the micro businesses, which most of the times does not allow them an appropriate quality of life (Garcia 2005). Every time is more difficult for a big part of the Mexican families to obtain its economic resources to live with the income of an exclusive supplier, for that reason a big part of the women enter into the labor market (Garcia and Oliveira2001)

PUBLIC POLICY RECOMEMENDATIONS

Should public policy be designed to support rural self-employed workers? This study was motivated by the need to provide an analysis of the rural self-employment with some purposes, first of all to understand the characteristics of the rural self-employees and their behavior in the last decade, and to facilitate policy makers in the design and implementation of policies to impulse self-employment in these areas. Self-employment appears as catalyst to job creation and it represents one of the most efficient ways for solving redundancy problem because it is a way of activating surplus workers (Brkanovic, 2004). Although self-employment permits women and men to alleviate underemployment and unemployment, work more autonomously, offer the flexibility needed to accommodate family-related responsibility; their poor education, the lower income associated with self-employment, and the instability in income associated with fluctuations in the demand for products and services situate many self-employees in a vulnerable situation (Rooney et al 2003). Giving some benefits of self-employment government should design public policies oriented to create the proper environment to self-employment, support and promote it. Next we present some recommendations of public policy to rural self-employee based on the paper Rooney et al (2003) and Brkanovic (2004).

PUBLIC POLICY RECOMMENDATION:

A) Construct a favorable economic environment for start-ups business in the rural areas.

- Provide the basic public services (e.g. water, electricity, roads) to the rural communities with the most imperative necessities unsatisfied.
- Facilitate the establishment and regulation of new business to reduce the administrative cost.
- Improvement of legal environment.

- Offer especial tax incentives to investors in the rural areas with the purpose to incentive inversion there.

B) Promote the self-employment in the rural areas.

- Give information about the advantages and disadvantages of the selfemployment.
- Some of the advantages of the self-employment are: Independence, employment when other opportunities are few, control over business decision, better standards of living, being the boss, etc.
- Some of the disadvantages of self-employment are: Fluctuating income, possibility of business failure, unrelenting responsibility, etc.
- Provide assistance and technical skill development before open a business.
- Development of pilot programs and projects which will be transformed into permanent structures of support.

C) Rural self-employed individuals usually are isolated; they often need information regarding professional development, health, marketing opportunities, etc; for that reason is indispensable to develop access to training, consulting and the necessary information to rural self-employees, with the purpose to raise their competitiveness.

- Give non-financial support to self-employees (information, courses, etc) to persuade persons to enter into self-employment and help them to obtain good results.
- Make government subsidies or training available to rural self-employed who wish to improve their skills to increase their competitiveness.
- Provide information about sources of business with financial support of the government, banks, credit unions or professional associations.
- Make easy the transfer of information from suppliers of services to rural selfemployees.
- Stimulate economic activities among the self-employees oriented to export with the purpose to take advantages of the globalization.

D) Financial security and access to credit. The most frequent obstacle of the rural selfemployees is lack of access to credit and financial institutions (Knight 1996). The government's responsibility in this area should be offering services in rural areas not already offered by private sector because of they are disperse. As well, rural women face additional obstacles to get a credit, because their gender per se and because other factors related to the kind of businesses women tend to manage (e.g.,smaller business, home-based, part time). Some of the policy alternatives in this situation are for example:

- Identify under-serviced rural areas or populations.
- Strengthening of existing and establishment of financial institutional infrastructure in the rural areas.
- Special tax incentives for rural financial institutions.
- Provide micro credits targeted at vulnerable groups (women, least educated, persons with children).

- Implement a credit program for rural women that do not have any possessions to guarantee the loans to start their business.

E) Build alternatives to sustain self-employment during economic slowdowns especially the more vulnerable self-employee. For example:

- Identify among self-employees the more vulnerable groups.
- Guarantee access to low interest emergency loans.
- Provide information and incentives to households to save money in order to face unexpected difficulties.
- Create stronger relations between government programs and rural selfemployment associations.

F) A growing number of women are becoming self-employed during the last decade, they find in self-employment a source of income for them families and a flexible job. Nevertheless they face some additional difficulties because of their low educational level, reduced access to credit, discrimination, cultural aspects, etc.

- Make government training available to rural women self-employees who wish to improve their skills or education.
- Provide information about financial support of the government and new opportunities of business. Build rural women self-employment associations.

This study has presented a framework about the characteristics of self-employees and the factors (pull or push) behind the decision to enter into self-employment. The importance of self-employment to job creation and alleviation of poverty in the rural areas should be considered by the policymakers, and the best way for them to promote it is to understand the determinants of rural self-employees.

IMPLICATIONS AND CONCLUSIONS

This paper intends to shed some light on the evolution of self-employment in rural Mexico between 2000 and 201. A simple model was presented to analyze rural self-employment. Pull and push factors appear in the decision to being self-employed. Persons looking for a flexible job (women, married, persons with children) are attracted by self-employment as the pull theory says.

While persons with relatively low qualifications and quite limited chances for finding a job in the wage labor market (least educated person, women, older persons) are pushed into self-employment to alleviate the unemployment, underemployment or poverty. We interpret this result as a signal that rural people see selfemployment as a necessity rather than an opportunity, the rural self-employed are more pushed than pulled to enter into self-employment.

The selfemployment have some criticisms, for example some of them don't pay taxes, they are low-paid, they don't have a secure income, they need some money to start a business and sometimes they don't have it, they don't have any employer benefit package, etcetera.

The importance of self-employment among women in the last years has risen for the reason that it permits women to work more autonomously and it possibly will provide the flexibility needed to achieve the family obligations. Women generally face difficulties in starting up a business; they tend to start a business with less capital than men (Rooney et al 2003).

Human capital accumulation raises individual incomes, but under imperfect markets, the lack of physical capital and other factors (i.e. technology) may hamper its returns. Once controlling for education: self-employed persons do have smaller returns to human capital compared to their employed counterparts. There is a reduction in this effect in 2004 with respect to 1994, but still its magnitude is economically significant. It is very possible that self-employed rural workers are paying a premium for the flexibility of allocation their time or because of they have lower educational levels than wage employees.

From a development perspective the fact that both women and rural workers in the south have smaller returns than their male/north counterparts, and that these effects are accentuating themselves raises a red flag. As so, if job opportunities appear in rural areas, this may facilitate that workers exit self-employment. The evidence found, suggests that the latter effect can be highly correlated to human capital. Again, that it is not uniform across regions.

In terms of economic public policy, rural self-employment is a development strategy that be supposed to come with adequate public policy supports because it is expected to be a possible exit from poverty and unemployment.

BIBLIOGRAPHY

1. Amemiya, Takeshi. (1985). Advanced Econometrics. Cambridge, MA: Harvard University Press.
2. Apps, Patricia & Ray Rees (1988), "Taxation and the household", Journal of Public Economics, 35, 355-369.
3. Aronson, Robert L. (1991). "Self-Employment: A Labor Market Perspective". Ithaca, New York: ILR Press.
4. Attanasio, Orazio & Miguel Szekely. (2001) Portrait of the poor: an assets-based approach.
5. Washington, DC. : Distributed by the Johns Hopkins University Press for the Inter-American Development Bank.
6. Audretsch, David, M.A. Carree, Andre van Stel & Roy Thurik (2006). "Does Self-Employment Reduce Unemployment?". Discussion Papers on Entrepreneurship, Growth and Public Policy.
7. Banks, James, Richard Blundell, & Arthur Lewbel. (1997). "Quadratic Engel Curves and Consumer Demand", Review of Economics and Statistics, 79, pp. 527-539.
8. Blanchflower, David. (2000). "Self-Employment in OECD Countries". National Bureau of Economic Research Working Paper 7486.
9. Blanchflower, David. (2004). "Self-Employment: More may not be better". National Bureau of Economic Research Working Paper 10286.

10. Blanchflower, David & Andrew Oswald. (1998). "What makes an Entrepreneur?" Journal of Labor Economics 16, 26-60.

11. Bradhan, Pranab, & Christopher Udry. (1999). Development Microeconomics. Oxford: Oxford University Press.
12. Bruce, Donald, Douglas Holtz-Eakin, & Joseph Quinn. (2000). "Self-Employment and Labor Market Transitions at Older Ages". Boston College Working Papers in Economics 490, Boston College Department of Economics.
13. Brown, Sara, Lisa Farell, & Mark N. Harris. (2002). "Who are the Self-employed? A New Approach." University of Leicester, Department of Economics, Working Paper.
14. Brkanovic, Igor. (2004) "Is there a case for a public support to self-employment programmes?-The role of State and public authorities in the promotion an implementation of micro-finance activities targeted at the unemployed". Project: "Social Finance for support to Self-Employment in Serbia" implemented by the International Labour Organization.
15. Deaton, Angus. & J. Mullbauer. (1980). "An Almost Ideal Demand System", American Economic Review, 70, pp. 312-336. Calvo, Guillermo & Stanislaw Wellisz. (1980). "Technology, Entrepreneurs and Firm Size". Quarterly Journal of Economics, 85, 663 678
16. Chambers, Robert. (1987). "Rural development: putting the last first". Harlow, Essex, England: Longman Scientific & Technical; New York: Wiley.
17. Chiappori, Pierre-Andre. (1988). "Rational Household Labor Supply". Econometrica 56, 63-89.
18. Chiappori, Pierre-Andre. (1992). "Collective Labor Supply and Welfare". Journal of Political Economy 100, 437-467.
19. Clark, Kenneth, and Stephen Drinkwater. (1998). "Ethnicity and Self-Employment in Britain." Oxford Bulletin of Economics and Statistics 60(3):383-407.
20. Cleaver, Kevin. (1997). "Rural development strategies for poverty reduction and environmental protection in Sub-Saharan African". Washington, DC: The World Bank.
21. Cortes, Fernando, Daniel Hernandez, Enrique Hernandez Laos, Miguel Sekely & Adis Vera
22. Llamas (2002). "Evolution y caracteristicas de la pobreza en Mexico en la ultima década del siglo XX".
23. Crosta, Nicola, & Mario Pezzini. (2003). The micro-regions strategy, Mexico (Case Study).
24. Paris. Working Paper OECD. Currie, Janet & Enrico Moretti, (2002). "Mother's Education and the Intergenerational Transmission of Human Capital: Evidence from College Openings and Longitudinal Data,"
25. NBER Working Papers 9360, National Bureau of Economic Research, Inc.
26. Davila Villers, David (1997). "NAFTA and the New Rural Economy: Implications for Mexico". Latin American Studies Association Congress Guadalajara, Mexico.
27. Esquivel, Gerardo & Jose Antonio Rodriguez-Lopez (2003). "Technology, Trade, and Wage Inequality in Mexico before and after NAFTA". Journal of Development Economics 72, 543 - 565.