The Role of Labour in Shielding Mexican Banks from the Financial Crisis

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In analysing the banking sectors of large emerging markets, such as Mexico’s, the role of labour in helping prop up the financial system has been generally ignored. Yet, in the case of Mexico, examining the conditions of the labour force is particularly important. It helps to explain not only the increase in bank profitability leading up to the recent global financial crisis but also the capacity of banks in Mexico to weather its worst consequences.

The role of labour should be examined at two levels: 1) the general society-wide relationship between labour and finance and 2) the specific employment relationship between bank workers and banks. Examining both levels is necessary for understanding how the banks have benefitted from neoliberal policies in Mexico. This focus seeks to complement, not replace, analyses highlighting the success of Mexican banks in profiting from large interest-rate differentials, rising commissions and fees and greater income from the servicing of consumer and state debt.

Historical Backdrop
Since 1982, Mexico has experienced three structural shifts in bank ownership (Marois 2008). The country’s severe 1982 debt crisis triggered the first shift. The administration of President López Portillo (1976 to 1982) nationalised virtually all banks in order to save the financial system and resuscitate a strategy of state-led development. However, the incoming President de la Madrid (1982 to 1988) began, in contrast, to restructure the newly state-owned banks to operate as if they were private, market-oriented operations. This paved the way for the second structural shift under President Salinas (1988 to 1994), who, by presidential decree, rapidly sold the banks back to the Mexican private sector in 1991 and 1992.

The third structural shift, which increased the dominance of foreign ownership and control, began initially in the wake of Mexico’s 1994 peso and 1995 banking crises, but it only accelerated in 2000 with the ascendancy of Vicente Fox’s presidency. By 2002, a massive inflow of foreign capital transformed the Mexican banking sector, which has now become over 80% foreign controlled.

In Mexico, the banking institutions dominate the financial sector, holding 60% of all financial assets. Moreover, over three-quarters of all bank assets are held by the five largest banks (the Spanish BBVA-Bancomer, US Citibank-Banamex, Spanish Santander-Serfin, Mexican Banorte and UK HSBC). As another measure of concentration, over 96% of all commercial banks operate within large financial groups.

Impact of the Current Crisis
Given this concentrated structure, how did the Mexican banking sector perform during the global financial crisis of 2007-2009? When Lehman Brothers collapsed in mid September 2008 and the global financial system teetered on the edge of the precipice in October 2008, there was an unavoidable impact on the Mexican economy and knock-on effects on its financial sector.

International flows of capital into Mexico evaporated, trade with the US (which represented 80-85% of Mexico’s total) fell dramatically, domestic industrial output plummeted, and remittances into Mexico abruptly slowed. According to the IMF, GDP growth slowed to 1.3% in 2008 and nose-dived to -6.8% in 2009.

During the height of the crisis, the central bank, Banco de México, resorted to selling, in less than 72 hours, a record 11% of its reserves (worth well over US $6 billion) and increasing the interest rate on the public debt in order to defend the value of the peso.

However, the banks in Mexico appear to have avoided the financial disaster that struck many developed economies. To be sure, profits, measured as the Return on Assets (ROA), fell from a high level of 2.75% in 2007 to only 1% in 2009. But the banks have not been losing money. Moreover, they remain well capitalised, with reserves floating around the 15% mark.

Socialisation of Bank Debts
Why have the banks in Mexico escaped the worst of the global financial crisis? The common explanation is that they have become better regulated since the 1995 crisis and now prudently hold more cash in reserve. However, such a conventional interpretation fails to capture the underlying transformation in the relationship of power between labour and finance (see Marois, forthcoming).

This transformation has enabled governments to socialise private financial risk in times of crisis in Mexico. And such socialisation has been crucial to enabling the Mexican banking sector to successfully weather the recent global financial crisis.

When the 1995 banking crisis broke, the government of Ernesto Zedillo (1994 to 2000) socialised vast amounts of private bank debt that had gone sour. The Banco de México coordinated a huge bank bailout through Mexico’s banking insurance fund, Fobaproa. This involved the injection of US dollar liquidity, the temporary and permanent recapitalisation of banks, and individual debt restructuring programs. This rescue was necessary to buttress the commitment of the Zedillo administration to continue implementing neoliberal economic policies.

By early 1998, the cost of the bailout had grown to US$ 60 billion. Amidst great public outcry, Zedillo transferred the original Fobaproa debts to IPAB, a newly created banking insurance fund, and re-affirmed the state’s responsibility to service the growing debt. Today the total accrued cost of this debt has grown to about US$ 100 billion, or about 20% of Mexico’s GDP.

The Zedillo administration saved the banking system, but at mammoth cost to Mexican society. The costs of providing public guarantees for private financial risk that had gone sour became the perpetual collective responsibility of present and future generations of Mexican workers—the ones responsible for creating the income needed to service the debt. The...
Mexican process of the socialisation of bank debts typifies all recent state-initiated neoliberal bank rescues.

Increased Exploitation of Bank Workers

The post-1980s transformation of employment relationships between bank workers and the banks in Mexico is an additional important factor that helps explain the attenuated impact of the global financial crisis on the Mexican banking system.

Beginning with the de la Madrid presidency and under the aegis of state ownership from 1982 to 1991-92, Mexican bank workers suffered about 10 years of real wage reductions in order to help banks improve their productivity measures. When President Salinas rapidly privatised the banks in 1991-92—and 18 state-owned banks became 18 private domestic banks—the pressure to drive up productivity only intensified.

Intense inter-bank competition ensued as the new private owners sought a rapid return on their investment. One prominent strategy involved expanding bank branches in order to capture additional domestic savings that could be used in the lucrative initiatives of supplying public credit and consumer credit.

From the first sell-offs of state banks in 1991 until the banking crisis in 1995, the number of bank branches in Mexico exploded by nearly 35%. But the number of bank workers, by contrast, declined by 13%. This pattern continued after the state-initiated rescue of the banks in 1995. Between 1996 and 2000, the number of bank branches grew by an additional 12% while employee numbers fell by over 16% (by more than 20,000 jobs).

It was at this point that foreign bank capital began to flood into Mexico, and for good reason. From 1990 to 2000, the average number of workers per branch had been more than halved, from about 38 to just over 15, thus driving up labour productivity (see Figure). More importantly, the average cost of labour on a bank’s balance sheet plummeted from 5.25% in 1990 to 1.04% in 2000 (see Figure).

Since 2002 and under the predominant control of foreign bank capital, the rapid expansion of branch networks has continued. By end-2009, nearly 4,000 new branches had opened—representing an expansion of over 50%. However, during this period the number of bank employees grew by a similar percentage. This suggests some levelling off of levels of labour productivity, relative to branch expansion, as banks focused on increasingly profitable operating strategies, such as servicing state debt and providing consumer credit.

The dramatic increase in labour productivity, in conjunction with the socialisation of bank debt, contributed to the banks’ relatively high levels of profitability by 2007, when the US sub-prime crisis began to unfold. As noted earlier, the Return on Assets of banks in Mexico hit an internationally high level of 2.75% in 2007. This level was triple their ROA of 0.94% in 2000.

Concluding Remarks

To be sure, the fattening of bank profits has been related to favourable institutional reforms, higher fees and commissions, and lucrative state debt and consumer credit operations. Still, these factors do not take account of what has been largely ignored in the literature but has been affirmed by no less than the Deputy Governor of the central bank, José Sidaoui (see Sidaoui 2006): the expansion of banks’ profits has been closely tied to a contraction in operating expenses, which has been due mostly to reductions in the number of bank employees per branch.

At the same time, one must underscore the central point that the apparent resilience of Mexico’s banking sector today is unimaginable without the state-organised financial bailouts and guarantees backed, in effect, by the income-earning and tax-paying capacity of the country’s workforce.

Since the 1990s, neoliberalism has entered a new phase in which the continuous enrichment of the financial sector has been built on the basis of shifting the burden of financial risk onto labour, both directly and through society-wide measures. These practices are not limited to Mexico, but are also evident in the recent G20 response to the global financial crisis. It is ironic that widespread support for a pro-active role of the state in socialising the debts of private banks is far removed indeed from the liberal idealisation of free-market competition.

References:

