The demise of neoliberalism in Mexico: if so, so what?

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The demise of neoliberalism in Mexico today: if so, so what?

By Juan Carlos Moreno-Brid (mailto:juancarlosmorenobrid@gmail.com), (UNAM), with gratitude to Martín Puchet for his comments

"Rumors of my death have been greatly exaggerated", Mark Twain (1897)

1. Background.

Last July, Mexico’s political landscape was turned upside down by the landslide victory of Andrés Manuel López Obrador (AMLO) in the Presidential elections, and of MORENA (his party) obtaining a majority of seats in both legislative chambers. In his inauguration speech, last December, he once again denuded the neoliberal policies implemented in Mexico since the mid-1980s. He signaled Neoliberalism as the cause of Mexico’s calamitous long-term economic performance, marked by slow growth, rising inequality and widespread poverty. And blamed it as the origin of rampant corruption. He promised “...to abolish the neo-liberal regime” and to implement a different agenda with the poor as the main priority. On March 18, 2019, in a public acto to launch the activities towards drafting the National Development Plan 2019-24, he declared the demise of Neoliberalism.

This paper has two purposes. The first is to assess the extent to which the discourse on Neoliberalism’s death is reflected in the course of the policies put in place by AMLO’s administration. The second is to examine whether the new strategy is adequately tailored to meet Mexico’s long-term challenges of growth, equality, structural transformation and poverty-alleviation. Whether AMLO’s strategy diverges from Neoliberalism is less relevant than whether it is likely to trigger a long-term phase of development and growth in the Mexican economy. As Deng Xiaoping said, “it doesn’t matter whether a cat is white or black, as long as it catches mice”.

The paper is organized as follows. After this introduction, the next section gives an understanding of Neoliberalism, and analyzes its roots, application and results in Mexico from De la Madrid (1982-88) up to Peña Nieto (2012-18). The third section looks at the policies so far put forward by AMLO’s administration. As is well known, the political discourse of his government denounces Neoliberalism and claims to inaugurate a new dawn in Mexico’s development path. To assess this claim, this section gives a close look to key policies implemented in the first four months of the administration, paying special attention to fiscal and financial matters, industrial and trade policy as well as labor reform. En passant, it contrasts them with the policies applied during the Neoliberal era. The final section voices an assessment on the extent to which AMLO’s strategy, as seen so far, is likely to meet Mexico’s long-term development challenges. It also gives policy recommendations.

The assessment given here – early April 2019 – is very tentative. López Obrador took office four months ago, thus there is evidence for 1/18 of his six-year term, his Sexenio. If this were a soccer match, only the first five of the total 90 minutes of play have passed. Forecasting the final score now would be ludicrously audacious. But, these five minutes can give at least some idea of the team’s strategy, strengths, weaknesses and may perhaps point to some necessary changes in strategy or players. In other words, this is a very preliminary assessment of the new government’s economic and social policies. It is based on key documents of the government on its development agenda as well as on the policies it has begun to apply.

2. Rise and fall of Neoliberalism in Mexico: lights and shadows

Neoliberalism is a “slippery, shifting concept” (Rodríguez, 2017). Harvey sees it as: “a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms ... strong private property rights, free markets, and free trade... State interventions in markets ... must be kept to a bare minimum” because it can’t outperform the private sector and may be coopted by vested interests. He adds that “neoliberal states ... favor the ... solvency of financial institutions over the well-being of the population or environmental quality.” On social protection, their emphasis is on “individual responsibility and not on universal safety nets.”

Neoliberalism had gained presence in Mexico already in the 1930s and 1940s due to the concerted efforts of a certain elite sector that began to form ties with Von Mises, Hayek and the Mont Pèlerin Society. Intellectuals and politicians in alliance with powerful businessmen began to disseminate the main ideas of the Austrian School with the political objective of eventually shifting Mexico’s economic policy away from President Lázaro Cárdenas’ developmentalist agenda towards Neoliberalism. (See Romero Soto, 2018, the best reference on this topic).

They built prestigious academic institutions – Instituto Cultural Ludwig von Mises, Instituto Tecnológico Autónomo de México inter alia – to train young students in the merits of free market economies. With such ideological, theoretical and political affinities, they would join the civil service and reach positions to enable a shift of the policy agenda towards Neoliberalism. The political project reached its goal in the early 1980s when, in the aftermath of a balance of payments and fiscal crisis, President De la Madrid (1982-88) took office. His administration soon brought about an abrupt shift in the development agenda by launching a series of radical market reforms. This market-reform agenda continued and was even strengthened over the next four decades.

From De la Madrid to Peña Nieto: the remains of the (Neoliberal) day. From early 1980s to 2018 Neoliberalism marked Mexico’s economic policies. What did it achieve? There are bright spots on the macroeconomic stabilization front and on export’s dynamism. But there are shadows too, as it failed to ignite a phase of high and sustained growth, or a major reduction in inequality and poverty. Indeed, Neoliberal policies stabilized inflation around a 3% annual rate of expansion of the consumer price index, and constrained the fiscal deficit to not more than 3% of GDP. And exports gained enormous dynamism, changing their composition. In 1980, oil accounted for 85% or more of total export revenues. By the late 1990s, and helped by NAFTA, manufactured goods accounted for 80% or more.

However, the Mexican economy remained stuck on a low-growth trajectory. With an annual average rate of expansion of real GDP below 2.5% from 1985 to 2018, in per capita terms it continually lagged behind that of the United States. In fact, in this period, Mexico was one of the slower growing economies in Latin America as its exports failed to pull the rest of the economy into a dynamic path. Total investment as a share of GDP remained below 25% as the contraction of public investment was not accompanied by a surge of private investment. Most worrying, in 2016 approximately 50% of the population was poor; 20% extremely poor. Gini coefficients, calculated with data from income tax returns, indicate an increase in inequality in the last decade to levels above 0.50 (Leyva and Bustos 2016, Esquivel 2015). According to the National Council for the Evaluation of Social Policy (CONEVAL), 80% of Mexicans live in conditions of poverty or social vulnerability. The country ranks among the worst worldwide in terms of intergenerational mobility (CEYY, 2019), and violence has been increasing to acute levels. Such dismal economic performance coupled with blatant corruption go on to explain the overwhelming victory of AMLO in the elections of 2018, after two failed attempts.

3. The sound and fury of the new dawn

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AML0 won the Presidency with a political discourse fiercely opposed to Neoliberalism and corruption. It repeatedly pointed to these two phenomena as the roots of Mexico’s lackluster economic and social performance. His declaration of the demise of Neoliberalism in Mexico makes it necessary to identify his new policies and to analyze their rationale, tools, objectives, and expected impact in comparison to the previous neoliberal ones. In terms of policy, a key mark of Neoliberalism is that nominal stabilization—understood as low and stable inflation and a small fiscal balance (preferably close to zero)—is a necessary and sufficient condition for economic growth. Other ones are its reliance on inflation targeting to keep prices under control and its belief that industrial policies and minimum wages are at best inefficient policy tools. The following paragraphs examine how much the new government’s policies differ from the neoliberal guidelines.

### 3. Fiscal Policy

In AML0’s speeches on economic policy as in the main policy documents prepared by the Secretary of Finance (SHCP), the leitmotif has been that the whole operation of the public sector will be subject to strict Austerity. More explicitly, this means that all government’s policies and actions will be bound by the following constraints: (i) there will be no fiscal reform in the first three years of the administration, (ii) fiscal revenue will not increase either in 2019 or in 2020 as a proportion of GDP. (iii) in this period, the public sector will not incur in additional indebtedness. In other words, the implementation of AML0’s proposed social and economic programs will strictly depend on the availability of public revenues subject to the strict constraint of no additional resources through more debt or any tax reform.

By adopting such strict Austerity as a guideline, the new administration imposes acute limits on the possibility of strengthening and modernizing infrastructure, of applying tax policies to reduce income inequality or strengthen its capacity to act in a countercyclical way, not to mention to alleviate major lapses in the socioeconomic conditions of the poor population. Recall that, as systematically defined by the IMF, the OECD, the World Bank, ECLAC, UNAM, CEEY, and many others local think tanks, Mexico’s tax revenues as a proportion of GDP are extremely low; very similar to that of Central America and at least six percentage points short of what is needed to meet long-standing needs in infrastructure, health and education, and overall social security and protection concerns.

According to the SHCP’s General Preliminary Criteria for Economic Policy (GCEP2020)—its latest report on the fiscal and growth projections for the Mexican economy—in real GDP is forecast to expand 1.6% in 2019 and 1.9% in 2020, a downward revision from their recent figures of 2.0% and 2.6% inflation will remain low but rather stable, 3.4% in 2019 and 3.0% in 2020; as well as the interest rate (8.9% in 2019 and 7.8% in 2020). The nominal exchange rate vis-a-vis the US dollar will average 19.50 pesos this year and 20.0 the following one.

The commitment to an extremely austere fiscal policy is reflected in the projected figures for public expenditure, revenues and the overall financial requirements of the public sector. Indeed, as stated in the GCEP of 2020, the fiscal authorities aim to keep the stock of the public sector financial requirements during the whole Sexenio at a level very close to 45% of GDP. To do so it plans to increase the primary fiscal surplus (excluding interest payments) from 0.7% in 2018 to 1% in 2019 and 3% in 2020; the tightening is estimated at 6 points of growth on expenditure: from 4.3% in 2018 to 2.9% in 2019, 2.3% in 2019 and 2.2% in 2021 (Provenza, 2019). The contraction will affect its gross fixed capital formation, projected to drop from 2.7% of GDP in 2018 to 2.0% in 2021. Most problematic, from a growth perspective, for the whole six years the SHCP is projecting an average annual rise of only 0.7% of public expenditure in real terms; this is totally insufficient (GNCD, 2019; CIEP 2019).

Such austerity is to be accompanied by a significant change in the composition of public expenditure, in order to accommodate the top priority projects of the government, among them Building a Future with the Youth (an ambitious mass transfer investment program of 180 dollars per capita to support an apprentice program for up to 2.3 million youngsters), Seeding Lives (planting a million trees), Elderly Adults and—on the investment side—the Maya Train, the crude oil refinery in Dos Bocas and a new airport in Santa Lucia. To fund these major new projects in the context of a tightly constrained budget, the government has cut numerous programs and projects of the previous administration, reduced the bureaucratic apparatus in practically all Secretariats including the sacking of a considerable number of encomiendas, slashed wages in the public sector, and elimination of various public entities like PROMEXICO (in charge of attracting foreign investment to Mexico) and the National Council for Tourism (to promote foreign tourism) Inter alia.

On the future of PEMEX and of CFE (the oil and electricity enterprises of the public sector), the new government has strongly voiced its intention to give them a more prominent role in the allocation of resources. This is in contrast to the strategy of Peña Nieto who intended to diminish their influence in the corresponding markets relative to the private sector. The new government has not prohibited or cancelled their association with foreign or domestic private firms, but has applied measures to cool them off.

One major concern with the reduction of the bureaucratic apparatus and wage cuts in the public sector is the lack or unavailability of a formal analysis of the implications of such cuts in terms of the efficiency, efficacy and scope of the operations of the public sector, or an evaluation of the performance of the entities being shut down, like PROMEXICO, for example. Such an analysis is vital for gauging the costs and benefits of such an acute downsizing of the public sector. Another concern requiring analysis is the experience of some Latin American countries where the contraction of real wages in the public sector has led to a significant downgrade of its, say, human capital relative to that of the private sector. Finally, implementing such cuts in expenditure will slowdown domestic demand; an effect particularly unwarranted today in Mexico, the first year of a new administration and in a context where foreign demand is weakening. It is difficult not to compare such a drastic, across the board, slashing of public expenditure and the associated increase in the primary fiscal surplus with the contractionary macroeconomic stabilization packages typically backed by the IMF in developing countries. A major difference is that such packages were implemented by need—in the midst of acute balance of payments crisis—and not by choice as in Mexico today in the absence of adverse external shocks.

### 3.2 Monetary and financial policy

Alejandro Daz de Leon, Governor of the Central Bank, in his opening remarks at the National Convention of Bankers this March, meticulously described the current scope, instruments and objectives of monetary policy today. As he put it, such policy under the present administration is identical to the one applied since Vicente Fox (2000-05). He stated that the Central Bank must continue to be autonomous, actually Lopez Obrador, in various important speeches, has stated that his government values and will respect the autonomy of Banco de Mexico. As Daz de Leon stressed, Banco de Mexico has one priority: to keep inflation down. He shared his belief that monetary policy affects the long-term trajectory of inflation, but not the short-term rate growth of economic activity or of employment. He added that since 2001 Banco de Mexico follows a policy of “inflation targeting” aimed at an annual inflation rate of 3% with a one percentage point margin of variation; allowing ample room for nominal exchange rate flotation to face balance of payments pressures.

The only modification to monetary policy implemented since Lopez Obrador took office was the launch of an electronic platform (Cobro Digital or CoDi), to further financial inclusion by enabling anyone with a cell phone to make or receive any day any hour monetary payments into accounts digitally accessed. A contentious theme floating in this Convention was the excessively high fees charged by the commercial banking system and a proposal by the Senate to issue legal rules and regulations to cap them. Interestingly and surprisingly, given his constant diatribe against the free operation of market mechanisms, in the same Convention the President declared his opposition to the Senate’s proposal. Instead he voiced his belief that greater competition amongst banks would cut fees to more reasonable levels. In brief, the instruments and objectives of monetary policy have not changed.

### 3.3 Labor reform, commercial and industrial policy

The new administration brought about important changes to labor market dynamics and institutions. First, it raised the minimum wage by 15%, bringing it up to a level whereby it might cover the very basic basket of goods and services. In federal entities at the border with the US, in an attempt to boost the region’s competitiveness, minimum wages were doubled part passu with a reduction of VAT and IRSS for firms with a minimum of two years operating in that region. The other priority program of the Secretary of the Economy so far is a major initiative to provide microcredits to SMEs.
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Although lip service has been paid to the idea of building a universal social protection and security system, so far we have yet to see actions or policies in that direction. At the time of writing, the new government’s social policy may be characterized by the launch of a number of programs to transfer funds to certain sectors of the population, replacing the conditional cash transfer programs of the Neoliberal era. It is unclear whether these new transfer programs will be more efficient and effective than the previous ones in reducing inequality and poverty, promoting decent job creation, or fostering upward mobility to key national or regional levels. The intention must surely be in that direction, but their target population, their beneficiaries, are not the same as before. So far, some of the new import transfer programs, do not have their beneficiaries selected according to poverty criteria. In particular, the most relevant one Building a Future with the Youth aims at youngsters that neither work nor study; not putting special attention to their income level. Another potential challenge of this important program is that it was fully launched with no pilot testing.

The President has voiced his strong preference to provide monetary support directly to the ultimate beneficiaries, and not indirectly through private intermediaries or NGOs. The rationale behind this is that by short-circuiting them, there are fewer possibilities of corruption and no resources are lost in administration fees. Perhaps, there is still considerable debate over the overall impact of such operational change on the welfare of the beneficiaries. After all, the impact of such money transfers depends on their use by the beneficiaries. Such schemes, strangely enough, reminds us of the proposal of private vouchers – associated with Milton Friedman – advocated on the idea to give more room to the private sector’s freedom of choice. 

4. Recommendations and conclusions.

Only five minutes have elapsed of the, say, soccer match being played by the Mexican economy under the direction of its new President. The analysis of the strategy and the actions implemented so far leads to suggest the inclusion of a number of key policy-players soon into action. Otherwise, the rest of the match may be very complicated and runs the risk of having a disappointing result.

The first is a mid-field player: a profound fiscal reform to foster growth and equality with long-term debt sustainability. The reform would have to meet the following challenges. It must: (i) significantly strengthen public revenues, (ii) modernize the national system of public investment in order that it is capable to monitor effective and efficiently a new wave of public investment projects (in order to raise its fixed capital formation in three points of GDP), (iii) reduce income inequality, and (iv) strengthen its countercyclical capacity.

A second player that must enter to boost the competitiveness and growth potential of the Mexican economy is an active industrial-innovation and technological policy coupled with a number of modern development/policy banks (See Dutentit and Puchet). Even the IMF, acknowledging the vast literature on the merits of industrial policy, recently admitted that such policy is a useful development tool, as long as it entails: (i) the support of domestic producers in sophisticated industries, beyond the initial competitive advantage; (ii) export orientation; and (iii) the pursuit of fierce competition with strict accountability.“As the Fund recognizes, the success of Asian economies is the “outcome of the implementation of an ambitious technology and innovation policy over decades that kept adapting to changing conditions and moving to the next level of sophistication. The state set ambitious goals, managed to adapt fast, and imposed accountability for its support to industries and firms”.

In the case of Mexico, such policy goals must a fortiori be well aligned with environmental concerns, with for example a green pact in the context of an energy transition strategy for sustainable development. Setting ambitious goals on matters of structural transformation based on technology and innovation plus strengthening the relevant institutions and implementing the policies to reach them would be a most welcome addition to the new government’s agenda. Mexico already has two, once important but now weakened, development banks: NAFINSA and BANCOMEXT. The administration should revitalize and make them, in the Asian model, policy banks. Mexico’s commercial banking system blatantly fails to meet the intermediation needs inherent to finance the fixed capital formation - infrastructure, plants and equipment- to boost the economy’s growth potential. Long-term funds, venture capital, to finance new enterprises seeking competitive advantage based on innovation are in dire want.

The third player to be included, to improve the safety (net), is a universal social protection system to guarantee everyone timely and available access to, and quality provision of, health and social security services, from cradle to grave. In the build-up of such universal system, special priority should be given to the reduction of welfare gaps – inter alia, regional and gender-wise – that have most impact on inequality and poverty. Such a system, instead of a multiplication of cash or in-kind transfer programs, would do wonders to advance Mexico’s path towards a true Welfare State. Finally, a brief comment on corruption. First of all, it should be always kept in mind that it is rooted in the public sector as much as in the private sector. Stealing, cheating, evading rules, regulations and legally binding directives happen in both sectors, and in their interactions. On April 12th in an interview with Jorge Ramos, López Obrador said that under his administration corruption has been eliminated (Suárez, 2019). For this personal opinion of the President to become a fact, the new government and the civil society have first to beat impunity.

Undoubtedly the remaining 85 minutes of the match will evidence major changes in Mexico’s development and macroeconomic strategy and performance. Hopefully we will begin to see them well before half-time. But, without the key players identified above, and independently of whether the national shirt is colored as anti-neoliberal, post neoliberal, heterodox, “la neta del planetas”, burgundy or red, the economic and social policy team will again fail; a failure that may cost our society and, perhaps, even our democracy dearly.

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1. So far the key strategic policy documents of the government are those linked to the budget for 2019 and the preliminary projections for the budget of 2020 and their corresponding macroeconomic projections and policies to be applied, known as General Preliminary Criteria for Economic Policy 2020, here referred to as GCEP2020. (See SHCP, 2019a and 2019b).

2. A most notorious and controversial one was the cancellation of the ongoing construction of the New Airport of Mexico City, in Texcoco. Such a move had an adverse effect on business climate and investment prospects of the (foreign and domestic) entrepreneurial communities. It also hit public finance with obligations on debt repayments and compensation penalties for non-completion.

3. The Constitutional reform of 1993 gave administrative and functional autonomy to Banco de México, and established as its main objective to preserve the purchasing power of the local currency. It added two more functions: i) promote the healthy development of the financial sector, and ii) preserve the well-functioning of the payments system.

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1 response

Marina Carmona Ambriz says:
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The next 85 minutes are already viable and easy to forecast. Everything in AMLO’s government is: if there are cockroaches in the kitchen, then burn the kitchen.

No good news could come starting the match cancelling the magnificent NAICM, a self sustained and self financed project, paying it and not constructing it. Secondly: no inequality reduction can come from a government that starts cancelling the educational reform and giving back to the unions the control of education, evaluation, resources and policy with an “executive order” violating the Constitution. No news can come from a president that in the afternoon invites everyone to invest and the next morning he uses the pulpit to condemn enterprises like an inquisitor. How can we believe this is the end of corruption when the incoming government changes the law to avoid bidders (licitaciones) and 80% of current purchases are done by direct awards, for instance the new refinery with a restricted invitation to 4 enterprises instead of opening it worldwide. No inequality or poverty reduction can be sustainable without wealth creation, innovation, good education and all you mentioned in your article, and this government is doing nothing for a better future: by cancelling and diminishing important public expenditure in science, technology, digital education, sustainable energies, and restoring electricity production with coal. And I can continue with a book of occasions, attacks to the rule of law, more corruption and the rapid wear of our fragile institutions, not to mention the visible inefficiency in public organisms due to the staff reduction and the hiring of very good political cricketers that know nothing about their task and duties, for example the CRE commissioners elected by AMLO. So, the rest 85 minutes seem to be shadow, recoil and Mexico will regret it because by the time we want to reach the gap with other economies, our possibilities will be gone. India, Brazil, and many others will eat our market and will fill the gap, but mexican mediocrity will say: if so... so what?

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