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Making Mexico Great Again?

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In July 2018, Andrés Manuel López Obrador (AMLO to his friends and enemies) was elected president of Mexico. AMLO's party, the left-wing [Movimiento Regeneración Nacional](#) (Morena), did not even exist in the previous presidential election. Now Morena and its allies hold majorities in both houses of congress, making it the [most powerful](#) Mexican political party since the bad old days of the PRI.

A populist, AMLO has vowed to implement a radical but "[peaceful](#)" transformation of the country to address crime, corruption and poverty. His promises have been welcomed by the country's marginalized citizens. There is, however, considerable skepticism about his economic policies among investors. And both the equity and currency markets have been [bearish](#) since the election.

Ironically, although AMLO owes part of his electoral success to Donald Trump's anti-Mexican rhetoric, there are similarities between the [economic nationalist](#) philosophies of the two leaders. Both have pledged to make their countries energy-independent, although AMLO's agenda includes promoting renewable technologies in addition to fossil fuels. And just as Donald Trump promised to restore manufacturing to a rust belt decimated by imports, AMLO has set his sights on achieving food self-sufficiency in a country that has become dependent on imported grain.

Like Trump, AMLO would like to make his country great again, with the definition of great left to the eyes of the beholder. Parts of his ambitious [agenda](#) would gain applause from conservatives: improving competition in key areas, notably banking, and fostering entrepreneurship. But parts harken back to the model of [stabilizing development](#) in the 1950s and 1960s, a period of stellar growth known as the "[Mexican Miracle](#)" that was anchored in self-sufficiency and rejection of trade-led development.

Since the Mexican Miracle came to an end in the early-1970s, growth has been disappointing for any number of reasons. The economy has been hampered by a [tax system](#) that generates little for investment in education and infrastructure; by increasingly competitive international markets; by economic mismanagement that rewards inefficiency, tolerates corruption and flirts with financial crisis. [World Bank](#) data show average Mexican economic growth fell from 6.7 percent annually in 1960-72 to

2.3 percent in 1982-2017 -- far below the estimated 5 percent Mexico needs to deal with poverty and manage a transition from a middle- to an upper-income country.

The elite has prospered in recent decades, but many others have not. As of 2018, around 43 percent of Mexico's population lived below the [poverty line](#), with the poorest fifth earning just 5.7 percent of national income. Income [inequality](#) has become an increasingly important source of social and political conflict, manifesting in violence (both petty and organized), corruption, class resentment, and a longing for political change. Little wonder that AMLO won support among Mexico's disaffected by promising fundamental reform to a deeply flawed system.

Although [critics](#) warn that AMLO is another Hugo Chavez, whose populism, profligacy and managerial incompetence brought down the oil-rich Venezuelan economy, AMLO describes himself as a nationalist whose priorities are improved living standards and reduced dependence on the US. His heroes are not post-Castro leftist strongmen like Chavez, Nicaragua's Daniel Ortega, or Bolivia's Evo Morales. They are [Mexican leaders](#) of the past, like Lázaro Cárdenas (1934-40) who laid the foundation for stabilizing development, and Adolfo López Mateos (1958-64) who presided over some of the early years of the boom period.

ALMO [blames](#) Mexico's current problems on the neoliberal reforms initiated in the 1980s and talks about returning to the stabilizing development model—conveniently ignoring that both the Mexican economy is now globally integrated. In 1960-72, imports averaged 9.7 percent and exports 7.8 percent of GDP respectively, compared to 31.0 percent and 29.4 percent in the NAFTA era.

Trying to replicate the stabilizing development strategy in today's economic environment would condemn Mexico to chronic underperformance at best. And it might be much worse – think Argentina, or maybe even Venezuela.

Even if it were possible to reverse globalization and roll back the past three decades, stabilizing development was never sustainable. It relied on an authoritarian single-party government that led an [import-substitution](#) process that succeeded by creating inefficient domestic monopolies even as it produced a short-lived economic boom. Because these industries were incapable of generating foreign exchange to sustain economic growth, the government was forced to borrow heavily from abroad, which ended in the collapse of the currency, the [1982 external debt default](#) and a decade of lost growth. The question is whether AMLO will have the pragmatism to recognize the dead end and tack the economy in a direction that softens market fundamentalism without abandoning market discipline.

That's not a pipedream: as [mayor](#) of Mexico City, AMLO took a technocratic approach to managing long-standing problems. Since being elected president, he has listened to the

concerns of the business community and been praised for the competence and professionalism of his government appointees.

Moreover, he's not tempted by the short-term rewards of fiscal imprudence. His [first budget](#) forecasts a deficit of 2.5 percent of GDP in 2019, identical to the estimate for 2018. But it would actually inch up the primary surplus (revenues minus spending, before interest payments) from an estimated 0.7 percent of GDP in 2018 to 1.0 percent in 2019. This primary surplus—which AMLO claims he will generate by means of a crackdown on corruption—would stabilize the government debt at 45.3 percent of GDP in 2019 and thereafter slowly trend down.

There are, however, large parts of AMLO's unfolding economic agenda that are so focused on appealing to his populist base that they risk undermining day-to-day governance. Take, for example, his [austerity plan](#).

Upon taking office in December 2018, AMLO—who lives in a modest house and brags that he's never had a credit card and drives an old VW -- promptly reduced his own salary to about \$65,000 a year, less than half his predecessor's. Then, citing an obscure clause in the Mexican constitution that prohibits bureaucrats from earning more than the president, ALMO ordered government agencies to sharply cut the salaries of more than 30,000 employees, including the highly skilled technocrats who run the Bank of Mexico and the national oil company, PEMEX. Concerned that a drain of experts will precipitate a ratings downgrade, the Bank of Mexico and the federal competition authority have asked [the Mexican Supreme Court](#) to review the legality of the salary cap.

AMLO has also increased the minimum wage by 16 percent and suggested doubling it in border-states, where living costs are higher. His government claims the new minimum wage is intended to restore parity with [the cost of living](#), although inflation has been nearly flat for decades. Given that the wage increase does not reflect a similar rise in productivity, many employers will likely lay off marginal workers, thereby boosting unemployment while reducing tax revenues.

Yet another worrying sign are the referendums to allow for "[citizen consultation](#)" on major decisions, which AMLO introduced even before taking office. One asked citizens to decide whether to continue construction of a new international airport to replace Mexico City's badly outdated facility. Less than 2 percent of those eligible bothered to vote, and AMLO's Morena party acknowledged that such referendums had no legal validity. Nevertheless, AMLO used the negative outcome as an excuse to cancel the project, arguing that its \$13 billion price-tag was grossly inflated due to corruption. Never mind the cost of potential lawsuits by abandoned contractors or that one-third of construction was already complete.

Will AMLO succeed in making Mexico great again, whatever that means? Or is the country in for another major disappointment? It is still too early to tell. AMLO is no Trump in the sense that he is an experienced politician with years of governance under his belt and a record of pragmatism. But he has promised more than he can deliver and may be trapped by high expectations. One thing is certain: Mexicans can expect a wild ride the next few years.