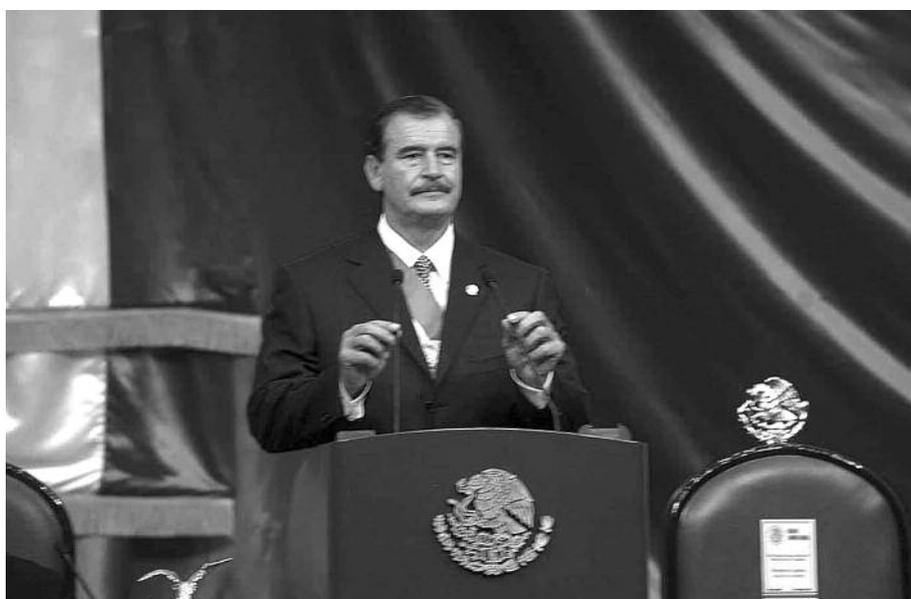


Vicente Fox

Three Years of Administration

Three Paradoxes

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Juan Pablo Zamora / Cuartoscuro

In early 2003, the Mexican government's economic area published its macro-economic forecast for the year. Coincidentally, projected growth for the period was three percent of gross domestic product and estimated inflation was also three percent. So, 2003 began to be called "the year of the three." It was three years into the Fox administration, and three more years were left until the end of contemporary Mexico's first non-Institutional Revolutionary Party (PRI) administration.

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Beyond numerical coincidences, President Fox arrived to mid-term immersed in three great paradoxes, each worth considering separately.

THE FIRST PARADOX

The first paradox is a popular president without the legislative backing needed to move forward his program. First off, it should be pointed out that despite enjoying a broad and comfortable approval rating among the public, Vicente Fox was not able to translate

that political capital into sufficient votes to give his party a majority that would allow him to govern unperturbed.

In May 2003, before the federal elections, the president had a 63.5 percent approval rating; based on this, balloting predictions were made that were not borne out by events. Some of his party's strategists thought that this high approval rating could mechanically be transformed into legislative support. Those who based their decisions on this supposition have met with a resounding failure. The electoral balance sheet for the National Action Party (PAN) is very negative.

The president's party had a first warning of what would happen July 6 during the local elections in the strategic State of Mexico, which has the largest voter registration rolls in the country. In that balloting, despite the president's visible support to his party's candidates, the PAN made no significant advance.

The federal mid-term elections and several local elections took place in July 2003. Things went well only in a few states. In Mexico City, for example, the PAN was swept aside by the

tion governors out of 32, the majority from the PRI.

With the new make-up of the Chamber of Deputies, in addition to his own party's votes, the president needs almost 100 deputies from other political parties to pass the federal budget and all ordinary bills. Constitutional changes are practically a dream, since he would need the support of more than 180 legislators from other parties to attempt them. Never has parliamentary arithmetic been so adverse for a chief executive.

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Party of the Democratic Revolution, losing two of the wards it had won in 2000. It was also defeated by a broad margin in Nuevo León, a state reconquered by the PRI after six years of PAN government. In Sonora, Campeche and Colima, despite notably improving its showing, the PAN did not manage to defeat the PRI. Recovering San Luis Potosí from the PRI and maintaining Querétaro under its leadership are its main —though limited— successes.

But if in the local elections the results were not encouraging, the most severe blow came in the elections for federal deputies. The PAN's seats in the lower chamber plummeted from 206 to 151, a calamity whose political dimension has yet to be clearly weighed. The man who threw the PRI out of the presidency now has to govern by making pacts with a PRI opposition that controls the two chambers of Congress (the PAN has only 36 percent of the Senate), in addition to having 25 opposi-

tion governors out of 32, the majority from the PRI. With this balance of forces against him, Fox can see that his popularity is not as high as in the first half of the year, but neither has it dropped notably. After the federal elections and concretely in August 2003, different polls said the president continued to enjoy the support of almost 60 percent of the population.¹

THE SECOND PARADOX

The second contradiction is linked to the economy. A battery of figures exists that, looked at from any angle, is positive and should foster optimism. The peso-dollar exchange rate, for example, has been enviably stable over recent years. Interest rates hover at their lowest levels in recent decades, and the Mexican financial system has recovered after the severe crisis it suffered in the last decade.

It is a merit of the Fox government to have achieved an important differ-

ence in the country risk vis-à-vis other economies in the region, as well as having obtained investment grade from prestigious evaluating houses like Moody's, Fitch and Standard and Poor's. In addition, Mexico is in a privileged position, third after China and the United States, on the list made up by A.T. Kearney that classifies the destinations of preferred investment for large companies. We could continue citing positive results for an administration that has scrupulously tended macroeconomic indicators and stability, but has not managed to turn this into prosperity for the majority of the population.

A few years ago, the figures and data summarizing the stability of the economy's main indicators would have been the delight of the majority of investors. It is somewhat intriguing to see that in a country that went through two decades of economic turbulence the public sees these successes as just another piece of data. According to the survey we already quoted, almost two-thirds of the population (65.5 percent) does not view the economic situation with optimism, and only one-third thinks it is better or the same as in previous years.

This concern is reflected in all polls of the public. People's main concerns today are unemployment (27 percent) and the economic crisis (26 percent). We should underline that these two items rate much higher than traditional concerns such as insecurity, corruption and poverty.²

Recapitulating, Vicente Fox has not managed to transmit to the broad public nor to the business community a major truth, which is that the advantages the country has today are due fundamentally to the fact that his administration has not attempted —like former President Salinas did, for exam-

ple—to use economic policy for political-electoral ends. This great merit of Fox's has not been adequately communicated.

The lack of high growth rates and insufficient job creation have undermined the optimism of many sectors of society. The country is in a state of uncertainty about the future of its economy due to different external factors (like U.S. economic performance) and internal ones like the frustration created by the impossibility of advancing with structural reforms, a climate of helplessness fed by the president himself through his idealization of the reforms. Let us look at this issue more closely since it is at the center of the national situation.

Almost all actors influential in the economy agree on the diagnosis of the situation. The approval of structural reforms would make it possible for growth rates to increase. As a sample of this reasoning, let us look at what the Banco de México, Mexico's central bank, said in its last report:

Macroeconomic stability is a necessary precondition, but it is not sufficient to foster growth of production, income and employment. For that, measures that increase productivity and competitiveness of the Mexican economy are needed. The structural reforms, deregulation and, in general, measures that increase the flexibility and capability of responding to the changing conditions of the world economy must aim in this direction.³

The consensus is that the reforms cannot be postponed. What are these reforms? In his last report to the nation on September 1, the president reduced them to five: labor, fiscal, telecommu-



President Vicente Fox and congressional leaders arriving for his third report to the nation.

nications and energy reforms and an overall reform of the state. Their passage, as we have already seen by looking at the composition of Congress, depends to a great extent on the PRI's willingness to cooperate in the legislature. The PRI holds the key to the reforms and, therefore, their success depends on complicated political negotiations, and the very logic of give-and-take and mutual concessions could take the teeth out of them. For many national political observers, the question is no longer only whether there will be reforms or not, but how profound they will be: no minor matter.

Fox's problem is that despite all his success in the macro-economy, the reforms have become a totem. The president himself has contributed to establishing a perception among the public that, with the passage of time, has become a real obstacle to the appreciation of his achievements: the idea that without structural reforms economic growth will not happen is a linear interpretation of economic reality, since there is a broad margin of options in the domestic market and in

the diversification of markets that has still not been explored.

But, let us return to the legislative-political processing of the reforms. Let us suppose that without structural reforms we are condemned to prostration. Politically, using this discourse has been very troublesome since the electorate not only did not react positively, but quite to the contrary, decided to vote in a Congress whose composition in fact made it even more difficult to form a majority that would guarantee the possibility of changes to the Constitution.

At this point, it is not a matter of underestimating the importance of congressional agreements now that with the beginning of the new session everything points to the party leaders coming up with an agreement on a fiscal reform, but it is worthwhile placing expectations about a tax reform in their proper perspective.

An exercise in realism is needed to make it clear to the public (and particularly those who make up the army of the unemployed, which the most recent National Statistics Institute sur-

vey put at 3.5 percent of the work force) just what can be expected from the coming reforms. This is to avoid broad sectors of society continuing to harbor the hope—a rather mechanical hope—that the country's problems will begin to be solved once the reforms are passed by the legislature.

The fiscal reform, for example, is necessary. What is more, it is absolutely indispensable. But by no means is it the panacea for solving all the country's woes. We do not intend to minimize its effects, but it is clear that the re-

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form that is politically possible, even in the best of cases, is no more than a prologue of a book still to be written. It is not a matter of criticizing the cake before baking it, but we do have to know how large it is to be before ringing church bells in celebration. Let us review. When it proposed its first fiscal reform in 2001, the Fox administration calculated that it would increase tax revenues by two percent of the gross domestic product, or about U.S.\$12 billion. Even applying VAT to food and drugs, revenues would increase to 13 or 14 percent of GDP, which continues to be a very low rate compared with other economies in the Organization for Economic Cooperation and Development (OECD).

In addition, that fiscal reform—if it happens—has a series of prior commitments: with rebates to lower income families, federal items and legislative commitments to increase educational

expenditures to eight percent of GDP by 2006, the reform will give the administration an amount of money that, while not to be dismissed, does not add up to enough to deal with the country's problems and qualitatively change the economic situation.

THE THIRD PARADOX

President Fox's third great contradiction is that his administration's successes in the political arena and in the

normalization of democracy do not seem to enthuse even him. Substantial advances in different aspects of governmental performance have been overshadowed by the tendency to put the accent on the road that remains to be traveled and not on what has already been covered.

It is not the aim of this article to review advances in education like the number of what have been called "quality schools" or the number of scholarships given out in the three years of this administration. Neither is it its aim to look at the successful housing program that has benefitted thousands of families.

The Fox administration has had palpable successes in other areas, like the fight against drug trafficking and kidnapping, some recognized by the Bush government, so sparing in its praise.

The administration's most important success is having maintained political

control of the country in a scenario in which presidential power is decreasing. With all its problems, the system of checks and balances is functioning; the relationship with the state and municipal governments, with slight friction, has been relatively smooth. The country is experiencing a democratic life and regimen of freedoms as though that had always been the norm. As with the economy, in matters of institutionality, the president's discourse puts more emphasis on the agreements to come than in the equilibria that exist today.

Other matters of great importance such as the passage of the Law of Transparency and the beginning of activities of the Federal Institute of Access to Information (IFAI), as well as the coming into effect of the Law of Public Functioning, have not been sufficient to sow the idea among the public that the country has changed. In August 2003, half those surveyed by Consulta Mitovsky pollsters stated that in Mexico there had only been a change of the people in power and not a change in the system. Only 44 percent thought the opposite. This is Fox's last paradox: the country has changed but it does not seem to have changed. **MM**

NOTES

¹ In this case, we used the 11th evaluation of the administration, the National Household Survey done by Consulta Mitovsky. See www.consulta.com.mx

² In some surveys, like Indemerc-Harris's September 2003 poll, unemployment is the main concern of 32 percent of those interviewed. See www.indemerc-harris.com

³ Banco de México, "Informe sobre la inflación abril-junio 2003" (Mexico City: Banco de México, July 2003), p. 52.