Recession, Unemployment And Privatization Vicente Fox Halfway Through

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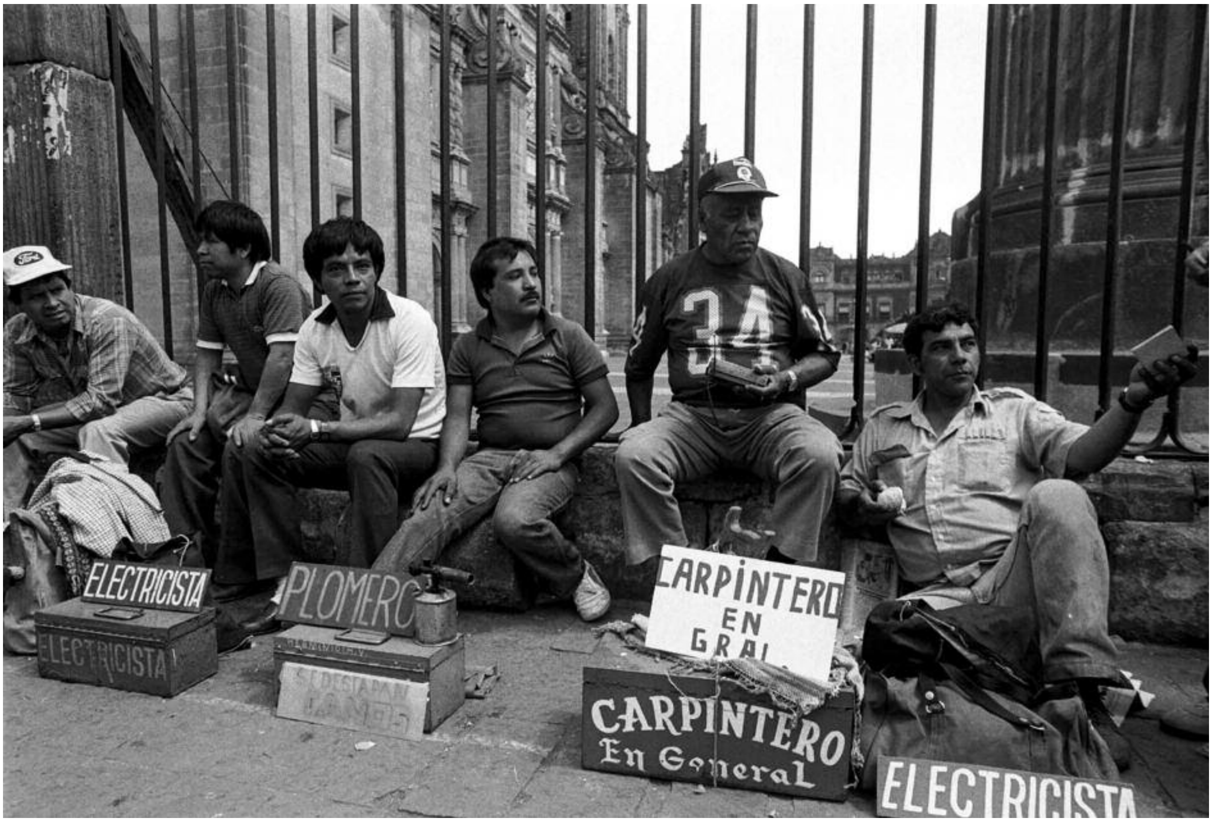

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The unemployed in Mexico City's central Zócalo Plaza.

On the eve of his September 1 report to the nation, Vicente Fox's administration was facing a delicate economic and political-electoral scenario. The rate of open unemployment had practically doubled; security indexes had diminished modestly; and economic activity continued to stagnate. Certainly, Mexicans are not experiencing the best of all possible worlds. One of the economic recession's political effects was the setback for the governing National Action Party (PAN) in the July 6 balloting for federal deputies in which it received only 30 percent of the nation's votes.

During the administration's first 33 months, approximately 1.5 million Mexicans lost their jobs and source of income in the formal economy. About 45,500 jobs were lost every month in the country's urban areas. As never before, increased unemployment in Mexico has spurred emigration to the United States.

The U.S. recession and its devastating effects on the Mexican economy

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have heightened this trend. Recent estimates indicate that remittances from Mexicans working in the U.S. will reach a record high of U.S.$10.5 billion in 2003. The International Monetary Fund calculates that by the end of the decade, remittances will total U.S.$16 billion, or 40 percent of all the hard currency Latin American immigrants will send to their countries of origin.[1]

According to National Statistics Institute (INEGI) figures, the country's open unemployment rate rose from 1.9 percent in December 2000 to 3.5 percent in July 2003.[2] Among women, the figures are even more serious: open unemployment rose from 3.12 percent among women in July 2002 to 3.73 percent in July 2003.[3]

In production, unemployment reached 18.5 percent in manufacturing, hard hit by the closing of more than 500 maquiladora export plants, while in construction, the figure is 6.2 percent.[4] This is the highest unemployment rate in Mexico since 1998, the year of "the first crisis of the new global economy."

Fox's Campaign Promises

In the 2000 electoral campaign, Vicente Fox committed himself to fostering economic growth and creating 1.35 million new jobs a year. Later, when he first took office, he brought his promise down to 700,000 new jobs a year. To reach the 1.35-million figure, the Mexican economy would have to have grown between six and seven percent. The reality has been different. By 2003, World Bank forecasts calculate that the gross domestic product (GDP) will barely surpass one percent growth.

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Unfortunately, the three years of President Fox's administration have been marked by recessive trends. In 2001, the GDP grew barely 0.3 percent; in 2002, 0.9 percent; and in 2003 forecasts put it at slightly more than one percent, much lower than the oft-mentioned official goal of three percent. Under these conditions, the Banco de Mexico, or central bank, had to recognize that there is still a risk that the economic recovery would be "slower than expected and not sustainable for a prolonged period of time."[5]

It is true that the paralysis of Mexico's economy is mainly due to the recession in the United States, particularly the drop in Mexican exports to our neighbor to the north. However, it is also due to the dearth of Mexican government initiatives to reactivate production and the domestic market. Mexican officials have limited themselves to hoping that the factor that would rekindle growth would be the vitality and time with which industrial production grows in the United States.

Given the damage caused by the recession, different sectors of society have said that Mexico's economic strategy, centered on the export of manufactured goods to the U.S. market and on financing based on foreign capital flows, has reached its limits. It is a strategy aimed at the globalized economy, that is, oriented by trade and financial deregulation, which has confirmed a deep dependence and vulnerability vis-à-vis the U.S. recession.

The "Government of Change" Maintained Economic Liberalism

Linked from the time of his campaign to powerful industrial and financial groups, President Fox decided on continuity in economic matters. The economic cabinet has maintained relative macroeconomic stability: low inflation, a moderate drop in active interest rates (for bank loans) and a peso firm against the dollar. However, exchange rate stability began to shift in July and August. Almost 20 percent overvalued, the Mexican peso has weakened to the point of surpassing the 11 peso-per-dollar mark at the end of August, accumulating losses of 2.85 percent for that month.[6]

Besides the lack of initiatives for dealing with stagnation, analysts have observed that the liberal economic model immoderately emphasizes price and exchange-rate stabilization and "healthy" public finances to avoid risks and uncertainty for local and foreign investors. These are indispensable prerequisites for foreign capital flows seeking high earnings, minimal risk and greater profitability for their investments in Latin America and the Asian Pacific.[7] In any case, orthodox liberal economic policy has been obsessed by a debatable "macroeconomic health" incapable of putting the country on the

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path of growth with job creation and higher incomes for the majority of the population.

This has disappointed the public, causing an unquestionable drop in the president's popularity, expressed in the ruling party's electoral reverses and the recovery of the previous ruling party (the Institutional Revolutionary Party, or PRI). At the same time, the Party of the Democratic Revolution (PRD) barely got 18 percent of the national vote, although it maintains a broad electoral majority in Mexico City.

The Entrepreneurial Style Of Government: Lack of Experience And Conflicts of Interest

Known as the "*gabinetazo*" or the "super cabinet," President Fox's governing team has performed modestly in the extreme. Initially, an anonymous group of head hunters took responsibility for selecting the Mexicans most capable of governing the country. The result was a blurry copy of the U.S. model that tends to join conspicuous members and representatives of the business community's economic power with political power in a single team: something none of the classics of modern political sociology would have recommended.

Under these conditions, President Fox's cabinet is a combination of successful businessmen and conservative politicians only recently introduced to the exercise of power. Perhaps for that reason, specialists were not surprised that the new governing group lacked a project for the country; in the best of cases, it barely managed to display some aspects of a vision of the Mexican nation as a large corporation. This is nothing new, but is brought home more forcefully in the political discourse colored with expressions borrowed from corporate accounting, the ideology of excellence and productivism.

Mr. Fox included Javier Usabiaga, a successful veteran agribusinessman as the minister of agriculture; Ernesto Martens —removed in early September— who had been the representative of corporations Union Carbide, Vitro and Transportación Marítima Mexicana, as minister of energy. Francisco Gil Díaz had to leave his post as general director of Avantel to occupy the Ministry of Finance, and Pedro Cerisola resigned from the monopoly Teléfonos de México (Telmex) to take on the Ministry of Communications and Transportation.

The strategic state-owned oil giant Petróleos Mexicanos (Pemex) was assigned to Raúl Muñoz Leos who had previously led Dupont de México; John McCarthy, who had been the representative of important international hotel chains and the tourism division of the country's second largest commercial bank, Bancomer, was asked to head up the National Tourism Fund.[8]

Its make-up led some analysts to say that the cabinet could be the terrain for conflicts of interests and the proverbial trafficking in patronage because of how close some of its members were to business activities related to their posts. The new cabinet went through a kind of de facto privatization. This is no exaggeration if we remember that Vicente Fox himself defined his team as "a government of businessmen for businessmen."

The cabinet has suffered from paralysis and a lack of initiative vis-à-vis the economy's most fundamental problems. Faced with recession and unemployment, at the end of August, President Fox announced an addition to the federal budget of a sum of 100 million pesos (less than U.S.$10 million) for training programs and economic support for the unemployed, a preposterously small amount that would barely cover a year of minimum wage (about U.S.$1,500) for 6,600 workers.

By reconfirming the liberal economic policy implemented by the previous three presidents, the cabinet has deepened the trends of stagnation and the concentration of income and wealth. In effect, an economic policy guided by the unrestricted play of the free market as the regulator of economic and social activity pushes economies into a contradictory whirlwind of impoverishment of the majority of the population and a dramatic concentration of wealth.[9]

The New Globalizing Economic Order: Market Economy And Democratization

The liberal global model has two solutions for developing societies: the market economy and democratization of political systems. It specifically recommends opening up the borders of national economies to capital flows and foreign investment and to international trade, measures that will turn into jobs and improved income. This economic model pressures governments to transfer and even reduce state functions in favor of market mechanisms and free competition, that is, privatization.

In the political sphere, the globalizing proposal recommends increasing individual economic freedoms and advancing the democratization of political regimes, specifically electoral systems. However, these recommendations are questioned by the social effects of the strategy itself, which generates tendencies contrary to the creation of a democratic, equitable, transparent society favoring human rights. In addition, market- and free-competition-based policies tend to weaken the legitimacy of democratically elected governments and, eventually, replace them with authoritarianism.[10]

Twenty years of applying liberal orthodox policy in Mexico has shown that macroeconomic policies based on containing aggregate demand with measures such as wage ceilings, budget cutbacks and privatization of pensions, health and educational systems are often rejected by society and met with public and union resistance. This opposition to liberal policies has even extended to sectors of small and medium-sized companies.

The application of policies restricting income, government spending and employment leads governments to lose political ground and to positions that harm their legitimacy and reduce their "political capital." The tendency of President Fox's approval ratings to drop is illustrative in this sense. Of course, the social and political crisis caused by the effects of the financial debacle in Argentina are a very significant experience.

Finally, we should say that the effects of liberal policies tend to cancel out access to jobs and social security (both health care and pensions) and, in general, limit the exercise of economic, social and cultural rights, which are indispensable for the dignity and free development of people's personalities. This is an attack on Articles 22 and 23 of the United Nations Universal Declaration of Human Rights. In effect, then, liberalism, contrary to its stated aims, makes it impossible to create societies with equitable, satisfactory working conditions and protection against unemployment stipulated as a right in Article 23 of the Universal Declaration.

From that point of view, we can say that the democratization of societies and full respect for human rights have a fundamental prerequisite: abandoning liberal economic policies because they promote recessions and the concentration of wealth and income.

Low growth, crisis and social and political instability are a vicious circle that must be prevented through a new economic strategy. This new strategy, without abandoning exports, must incorporate endogenous growth factors based on the reactivation of the domestic market and industry, an investment program for public infrastructure and a reduction of interest rates for loans that would be an incentive for productive investment through commercial bank credit. VM

NOTES

[1] Romina Román, *El Universal*, Finance Section (Mexico City) 3 July 2003.

[2] INEGI, *Encuesta Nacional de Empleo Urbano* (Mexico City: INEGI, July 2003).

[3] Ibid. One indicator that comes closer to measuring the gravity of unemployment is the "rate of critical conditions of employment" estimated at 8.91 percent for the work force. This figure includes those employed who work fewer than 35 hours a week for reasons determined by the market, those who work more than 35 hours a week with a monthly income under the minimum wage of 1,500 pesos (approximately U.S.$136 at 11 pesos per dollar) in the informal sector and those who work more than 48 hours a week and make less than twice the minimum wage. [After receiving this article, September unemployment rates shot up: in that month alone, 171,000 employees lost their jobs. Editor's Note.]

[4] Secretaría del Trabajo y Previsión Social, *Boletín* (Mexico City), August 2003.

[5] Banco de México, *Boletín* (Mexico City), 27 June 2003.

[6] Rogelio Cárdenas, *El Financiero* (Mexico City), 26 September 2003. In early October the dollar rose to almost 12 pesos. Editor's Note.]

[7] Marco Rossi, *Financial Fragility and Economic Performance in Developing Economies: Do Capital Controls, Prudential Regulation and Supervision Matter?* IMF working paper, May 1999.

[8] Gregorio Vidal, *Grandes empresas, economía y poder en México* (Mexico City: Editorial Plaza y Valdés-UAM, 2000).

[9] Víctor Soria, *Crecimiento económico, crisis estructural y evolución de la pobreza en México* (Mexico City: Editorial Plaza y Valdés-UAM, 1998).

[10] J. and G. Burki, *Más allá del consenso de Washington* (Washington, D.C.: World Bank, 1998).