Problematic Productivity

By Luis Rubio, President, Centre of Research for Development (CIDAC), Mexico City
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Among the few things on which there is no dispute between politicians and economists is the relationship between productivity and economic growth. No one doubts that greater productivity translates into greater growth. It would seem evident that the total national effort should be concentrated on raising productivity. Unfortunately it's been much easier to determine the problem than to solve it.

Two recent studies illustrate the nature and dimension of the problem as well as a possible response for Mexico's own reality. In its annual report, the U.S. Council of Economic Advisers (CEA) approaches the study of the economic problem that most affects the politics of that country, the matter that has become the American political mantra: the deterioration of the middle-class income and addresses the explanation of what would have happened had the growth rates of productivity during their Golden Age (1945–1973) persisted. The conclusion of the CEA report is that the mean income would have doubled.

Although the specific explanation is distinct, the story is similar in Mexico: the economy experienced high rates of economic growth in the Post-War era that dissipated from 1965 on, the year when productivity in the countryside began to decline, essentially because there was no land remaining to parcel out. The year 1965 was the last one that Mexico exported corn, denoting the initiation of a tendency toward increasing deficit in Mexico's balance of payments. For nearly three decades, the country imported machinery and inputs for internal development, financing those imports with mineral and grain exports. When that binomial ceased being functional, the country entered into the epoch of crises: crises caused by politicians convinced that more spending solves all problems.

The solution that the country would require lies in what the economists have always known: productivity. It wasn't until the mid-eighties, after various financial and political crises, that the country finally began to advance toward an economic schema that, it was trusted, would drive the growth of productivity. That was the logic of the liberalization of imports in 1985 and, eventually, the negotiation of the North American Free Trade Agreement (NAFTA). The objective of the liberalization strategy was simple and straightforward: utilize private investment and imports to submit the Mexican economy to competition and to oblige it to raise its productivity, which is nothing other than doing more with less. The presumption was that greater private investment within a competitive context would attract better technology, provide an incentive for productive-plant specialization and generate novel sources of growth.

Like so many other things in Mexico, economic liberalization was ambitious but insufficient. It did what was necessary but not everything that would be required to achieve the objective. Even today, thirty years later, a creaky and old productive plant subsists that refuses to adapt itself to global competition and that, protected by successive governments and an assortment of formal as well as informal protective mechanisms, subtracts from the growth and productivity of the economy as a whole.

The good news is that, in that same period, an extraordinary manufacturing plant with strong ties to exportation was established, especially to the U.S., which has become the sole growth engine of the economy. The great difference between the two components of the industrial sector is productivity. While productivity grows rapidly in the modern plant, it diminishes in the other. It would appear obvious that the solution resides in creating mechanisms that stress the growth of productivity, something that the government of President Peña understood from the beginning and incorporated into the public agenda.

The problem is that it isn't easy to tackle the challenge. Rhetorical solutions (infrastructure, education, research, less bureaucracy and taxes) are valid and desirable, but do not constitute an integral solution. In any case, as illustrated by the way the economy was liberalized from the eighties, we are very poor at creating integral solutions; we always leave behind loose ends that respond to sacrosanct interests. In addition, what really raises productivity is less readily grasped than is apparent: entrepreneurial practices, technology, the functioning of the market and, reigning supreme, a context of trust and stability that the generated by the government.

The other recent study is the "Decade Forecast" of Stratfor, an American intelligence firm. According to this company's predictions, the U.S. is presently entering into an era of greater insularity that is the product of the recognition of the limits of its own might as well as of the acceptance that there are other less aggressive ways of reaching its objectives than those procured in the last decade. According to Stratfor, the U.S has also come to understand that the North American environment (the three-country triad) is infinitely more important for its own economic success, the reason for its preparing to concentrate its economic stakes on North America, seeking to elevate the productivity of its economy, and with that the earnings of its population.

The message, and the opportunity, looks to be clear: as NAFTA shows, we Mexicans have proven to be exceptionally adept at taking advantage of opportunities when there is a framework of reliable rules that confer long-term certainty. Thus, this might be the moment to accept the limitations of our capacity for setting forth great initiatives because we seem incapable of creating the necessary certainty internally; therefore, it would be worthwhile to review the opportunity that exists in the region. With luck this time the result would change.

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