

The Absentee

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The great absentee in recent decades has been economic growth. Diverse international observers, particularly Gordon Hanson, have analyzed the phenomenon and the paradox of having brought about a broad gamma of reforms without procuring the long-awaited result. And it's true, Mexico has undertaken all types of reforms and actions supposedly leading to high growth rates, but these have not materialized. Hanson argues that it's not that "grand" reforms are lacking but rather arrangements of and adjustments to the existing ones in order to liberate the creative and productive potential of the country. President Peña's government has been particularly incisive in the need to reconvene governmental thrust and focus to ensure that, this time, the result would be distinct. However, its actions to date do not suggest that it will accomplish its mission.

The government has set forth two great lines of public policy. On the one hand, it has sought to stimulate demand with accelerated growth of the public expenditure, which has achieved the growth of the fiscal deficit and the debt to a greater extent than economic activity. Oil prices have made this avenue unsustainable. On the other hand, much has been said about raising productivity, but to date more has been done to increase subsidies and protect the traditional domestic producers (as in the case of textiles) than to create conditions that render the nation's old industrial plant more competitive, thus more productive. The big question is whether something better could be done, once and for all, to lay the foundations for a comprehensive economic transformation.

In a recent article, the product of a trip to Mexico, Dani Rodrik, Princeton professor, affirms that "the incapacity to grow constitutes an enigma for which there are no simple explanations". In his books Rodrik has argued that the success of the countries of Southeast Asia resided in there being an optimal combination of economic liberalization and industrial strategies contributing to the adjustment of local enterprises to become competitive in international markets. That is, they not only opened the door to imports (as in Mexico) but, says Rodrik, more akin to engineers than to economists, the Asians concentrated on ensuring that local enterprises had opportunities for development.

It is not obvious that this type of strategy would have worked within the Mexican context, but the fact is that the national economy eventually split into two parts, one highly productive, the other lagging behind and with no future. On the other hand, reforms such as that of energy, if conceived as instruments of growth (which today, in the Mexico of very weak institutions is more likely in electricity than in Pemex), could have an impact similar to Asia. The energy reform could constitute an exceptional opportunity to develop a "new" private sector in an economic branch that has for long been inaccessible to Mexicans.

While the opportunity is obvious, so are the risks. Just as CFE, Mexico's utility, is being transformed with a long term vision, centered on it becoming a facilitator of economic growth (which could presumably create opportunities for Mexican companies to compete head on with the international ones), Pemex is clearly looking inwards, attempting to recreate the old monopoly but now somewhat autonomous from the government.

The contrast between these two companies could hardly be greater. If one looks through Rodrik's prism, it is conceivable that CFE will create conditions for new Mexican companies to establish themselves and grow in a competitive environment, free of political interference. On the other hand, it is also possible, today more likely in Pemex, that there will be new opportunities for cronies with implicit governmental protection to grab all benefits. The former would contribute to accelerating economic growth; the latter to more of the old same: corruption, unproductivity and cronyism.

One needs to go not far to see evidence for this: it is enough to look at the past. In Mexico there has never been a strategy oriented toward making the traditional productive plant competitive (before or after NAFTA), but there has been another, infinitely more pernicious one: instead of promoting the transformation of the traditional industrial plant, the government protected it, giving rise to informality and impeding the achievement of the central objective in Rodrik's logic: widespread and sustained economic growth right from the base.

The museum-preserving strategy that the Mexican government has pursued over the past decades has an obvious socio-political rationale (the traditional industrial sector employs around 70% of workers), but that does not change the fact that it is losing one because it dispenses resources and does not contribute to growth. If the government nonetheless decides to pursue an industrial policy, it would be much better if it created competitive conditions in the energy sector that make possible for a new industrial plant to emerge. If it really wants for the latter to contribute to growth and development, the milieu would have to be free of bureaucratic interference, subsidies and cronyism. In other words, something unnatural for our governors.

The government has been right to define the problem of growth as one of productivity. Its challenge dwells on attacking the causes, rather than the symptoms of such a low level of productivity growth. The paradox is that the real political benefit derives from a robust and growing economy and not from a dying sector that is being supported with neither sense nor direction.

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