

The Mexican Economy and the 2012 Elections

Mark Weisbrot and Rebecca Ray

June 2012



Contents

Executive Summary.....	2
Introduction.....	4
Background: The Growth Failure After 1980	4
Recession and Recovery.....	6
Results of the Recession: Poverty and Unemployment.....	7
The Influence of Policy on the Recession and Recovery.....	10
Exports and Remittances	16
Conclusion: The Economy, Elections and the Media.....	18
References.....	20

Acknowledgements

The authors thank Samantha Eyler-Driscoll and Sara Kozameh for research and editorial assistance.

About the Authors

Mark Weisbrot is an economist and Rebecca Ray is a research associate at the Center for Economic and Policy Research, in Washington D.C.

Executive Summary

This paper examines some of the economic issues that could be relevant to Mexico's July 1st presidential election. These include the short-term impact of the 2008-2009 recession and recovery; the longer-term record of Mexico's economy since the Partido Acción Nacional (PAN) party took power nearly 12 years ago; and the longer-term trends of economic growth during the last decades of Partido Revolucionario Institucional (PRI) rule.

Among the highlights:

- Mexico's economic growth since 2000 has not improved over that of the long-term failure of the previous two decades. Its average annual per capita growth of 0.9 percent for 2000-2011 is about the same as the 0.8 percent annual rate from 1980 to 2000, and a small fraction of the 3.7 percent rate of the pre-2000 era.
- Mexico's economy since 2000 has also performed very badly as compared with the rest of Latin America. Its annual growth of GDP per person is less than half of the growth experienced by the rest of the region.
- Mexico suffered the worst output loss in Latin America during the 2008-2009 recession, with a loss of 9.4 percent of GDP.
- The recession wiped out almost all the gains in poverty reduction that had been made over the past decade.
- Unemployment has not recovered to its pre-recession level, but remains considerably higher at 5 percent, compared to 3.6 percent prior to the recession. However, these numbers are small in absolute terms, because the official unemployment rate does not capture the full extent of unemployment in Mexico. In order to be counted as unemployed, a worker has to have not worked even one hour in paid activity during the reference period in which the survey was taken; and he or she must have been actively looking for work. For these and other reasons, movements in the official unemployment rate should be seen as an indicator of the proportionate deterioration (and recovery) of the labor market, and not as a measure of the actual level of unemployment.
- Underemployment more than doubled during the recession, from 6.3 to 13.2 percent. Nearly three years later, it is still at 8.3 percent.
- Real wages have lost ground, shrinking by 3.5 percent since 2006.
- Policy mistakes have contributed to the poor performance of the Mexican economy. The Mexican Central Bank's monetary policy was too conservative, raising policy interest rates (to 8.25 percent) just before the recession. The Central Bank could have avoided some of the increases in unemployment and poverty by lowering interest rates much sooner and lowering them further.

- The Central Bank's failure to more aggressively combat the downturn and ensure a stronger recovery, especially of employment, is partly attributable to its inflation-targeting regime, which targets an inflation rate of 3 percent. The Central Bank was worried about inflation in 2008 – much of it caused by rising commodity prices – when it should have been much more concerned about the looming recession, which was already underway in the United States. About 80 percent of Mexico's non-oil exports go to the United States.
- The fiscal stimulus, as with monetary policy, was not only too little, but too late. Mexico has a relatively low level of public debt, at about 32 percent of GDP, and especially foreign public debt – which is the more binding constraint – at about 10 percent of GDP. The government therefore had plenty of room to borrow as necessary in order to pursue the appropriate fiscal stimulus policies.

The collapse of economic growth in Latin America from 1980-2000 was a major force behind – and perhaps the most important cause of – the sea change in Latin American politics that has occurred over the last three decades. Since 1998, left governments have been elected in Venezuela, Brazil, Argentina, Bolivia, Ecuador, Uruguay, Paraguay, Nicaragua, El Salvador, Honduras, and other countries. The winning candidates and parties in these elections ran explicitly against what they, and many others, called “neoliberal” economic policies, which were associated with the long-term growth failure.¹ These policies were introduced at different times in various countries, but mostly in the 1980s and 1990s (as in Mexico). They were sometimes referred to as the “Washington Consensus,” because the United States government was involved in promoting these policies, both directly and through multilateral organizations including the International Monetary Fund (IMF), World Bank, and Inter-American Development Bank.

In contrast to these other elections, Mexico's break with the party that presided over the 1980 to 2000 economic failure was followed by a move to the right, with the election of the PAN in 2000. Also in contrast to the regional average, Mexico's economic performance has not improved over the last decade, as compared with the prior 20 years. It is beyond the scope of this paper to explore why Mexico moved in another direction than most of the rest of the region. However, a couple of points are worth noting. In 1988, while Mexico was suffering through the economic collapse of that decade, the left PRD was widely seen as having won the presidential election, with the official result going to the ruling PRI.² In the most recent election, in 2006, the vote count between the PAN and the PRD was too close to call. Although there was no compelling evidence of significant fraud, irregularities were so widespread and massive that it was impossible to determine who actually received the most votes.³ It is also clear that the mass media, which is heavily monopolized, has played a major role in both the previous and current elections, and has been instrumental in keeping the left from competing on a level playing field.⁴ All of these factors, combined with Mexico's integration with the U.S. economy (which increased with the implementation of NAFTA in 1994) and proximity to the United States, may offer part of the explanation for why Mexico has not followed most of the rest of Latin America in its political shift to the left.

¹ Weisbrot (2006).

² Thompson (2004).

³ Weisbrot, Sandoval, and Paredes-Drouet (2006); see also Center for Economic and Policy Research (2006), and Democracy Now! (2006).

⁴ Valenzuela and McCombs (2007).

Introduction

On July 1, Mexican voters will choose their next president. This paper looks briefly at some of the economic issues that could be relevant to the election. It will consider the short-term impact of the 2008-2009 recession and recovery, the longer-term record of Mexico's economy since the Partido Acción Nacional (PAN) party took power nearly 12 years ago, and the longer-term trends of economic growth during the last decades of Partido Revolucionario Institucional (PRI) rule.

Background: The Growth Failure After 1980

The PRI, which ruled Mexico for over 70 years until 2000, is most often described as corrupt and authoritarian, having held onto power with a patronage system, vote-buying, and some rigged elections. However, it also presided over an era of successful economic growth from the post-war period to 1980.

The importance of this growth and the subsequent economic failure is difficult to overestimate. **Figure 1** shows the growth of Mexico's GDP per capita for 1960 to 1980, 1980 to 2000, and 2000 to 2012. From 1960 to 1980, GDP per capita grew by 105.6 percent, or 3.7 percent annually on average. This growth did not just benefit the upper classes; it provided for a massive improvement in the living standards of the average Mexican. Between 1960 and 1980, life expectancy rose from 57 to 67 years, literacy rose from 65 to 82 percent, and post-secondary school enrollment more than doubled.

It is important to understand that if Mexico had simply continued to grow at its pre-1980 rate, the country would have European living standards today. There is nothing inherently improbable in such a counter-factual; while Mexico's growth from 1960 to 1980 was good growth for a developing country, it was nowhere the pace of China over the past 30 years, and not at the level of South Korea during the 1960s and 1970s. And indeed, South Korea – which continued to grow at the rate of the 60s and 70s – has reached the per capita income of some of the countries of Western Europe. The collapse of economic growth in Mexico after 1980 must therefore be seen as a clear, long-term, failure of economic policy.

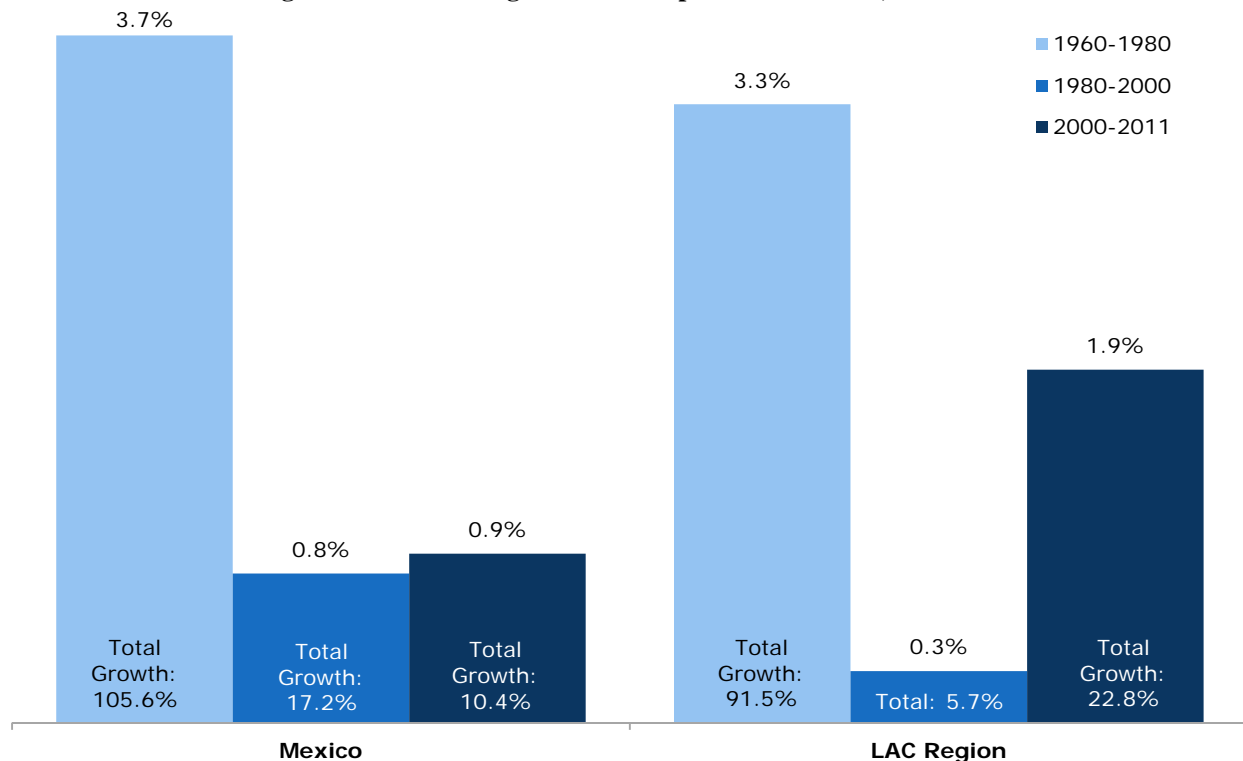
Mexico's economic growth since 2000 has not improved over that of the previous two decades. Its average annual per capita growth of 0.9 percent for 2000-2011 is about the same as the 0.8 percent annual rate from 1980 to 2000, and a small fraction of the 3.7 percent rate of the pre-2000 era. In fact, as shown in Figure 1, it is less than half of the growth experienced by other countries in the region over the same time period.⁵

Over the four decades from 1960-2000, the story of Mexico's economic performance – including the growth collapse of the 1980s and 1990s – is similar to that of the region. This is seen in Figure 1. From 1960 to 1980, per capita income in Latin America and the Caribbean grew by 91.5 percent, or an average of 3.3 percent per year. Over the next 20 years, from 1980-2000, it grew by just 5.7 percent total, or an average of 0.3 percent per year. This is the worst long-term economic growth failure in Latin America for at least a century. Since 2000, growth in Latin America has recovered some, to an average annual rate of 1.9 percent. This is still far below the average annual rate of 3.3

⁵ International Monetary Fund (2012).

percent for the 1960 to 1980 period. However, it is worth emphasizing the difference between the regional outcome and that of Mexico, which did not rebound from the 1980 to 2000 slump, and whose per capita income grew less than half as much during the past decade as the region as a whole.

FIGURE 1
Mexico and the LAC Region: Annual Average Real Per-Capita GDP Growth, 1960-2011



Source: International Monetary Fund (2012), Weisbrot and Ray (2011).

There are several points to note with regard to this overall growth performance and elections in Mexico. First, the collapse of economic growth in the region was a major force behind – and perhaps the most important cause of – the sea change in Latin American politics that has occurred over the last three decades. Since 1998, left governments have been elected in Venezuela, Brazil, Argentina, Bolivia, Ecuador, Uruguay, Paraguay, Nicaragua, El Salvador, Honduras, and other countries. The winning candidates and parties in these elections ran explicitly against what they, and many others, called “neoliberal” economic policies, which were associated with the long-term growth failure.⁶ These policies were introduced at different times in various countries, but mostly in the 1980s and 1990s (as in Mexico). They were sometimes referred to as the “Washington Consensus,” because the United States government was involved in promoting these policies, both directly and through multilateral organizations including the International Monetary Fund (IMF), World Bank, and Inter-American Development Bank.

In contrast to these other elections, Mexico’s break with the party that presided over the 1980 to 2000 economic failure was followed by a move to the right, with the election of the PAN in 2000. It is beyond the scope of this paper to explore why Mexico moved in another direction than most of

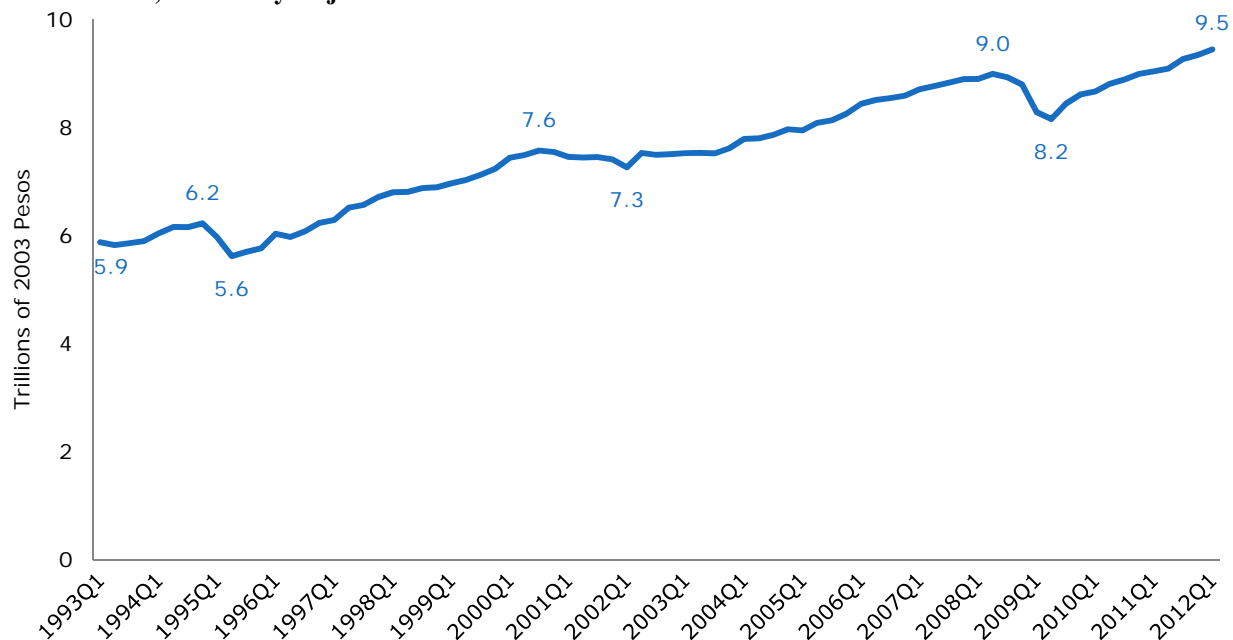
⁶ Weisbrot (2006).

the rest of the region. However, a couple of points are worth noting. In 1988, while Mexico was suffering through the economic collapse of that decade, the left PRD was widely seen as having won the presidential election, with the official result going to the ruling PRI.⁷ In the most recent election, in 2006, the vote count between the PAN and the PRD was too close to call. Although there was no clear evidence of significant fraud, irregularities were so widespread and massive that it was quite literally impossible to determine who actually received the most votes.⁸ It is also clear that the mass media, which is heavily monopolized, has played a major role in both the previous and current elections, and has been instrumental in keeping the left from competing on a level playing field.⁹ All of these factors, combined with Mexico's integration with the U.S. economy (which increased with the implementation of NAFTA in 1994) and proximity to the United States, may offer part of the explanation for why Mexico has not yet followed most of the rest of Latin America in its political shift to the left.

Recession and Recovery

The Mexican economy fell into recession in the third quarter of 2008, and lost 9.4 percent of GDP over four quarters. This can be seen in **Figure 2**, which shows real quarterly, seasonally-adjusted GDP. This was the biggest loss of output in the region. Part of the reason for this steep drop is Mexico's close integration with the U.S. economy, which was the epicenter of the global financial crisis and recession. The recession was about as deep as the "tequila crisis" of 1995, when GDP fell by 9.7 percent, but recovery has been slower after the most recent recession.

FIGURE 2
Mexico: Real, Seasonally Adjusted GDP



Source: Instituto Nacional de Estadística y Geografía (No Date), authors' calculations.

⁷ Thompson (2004).

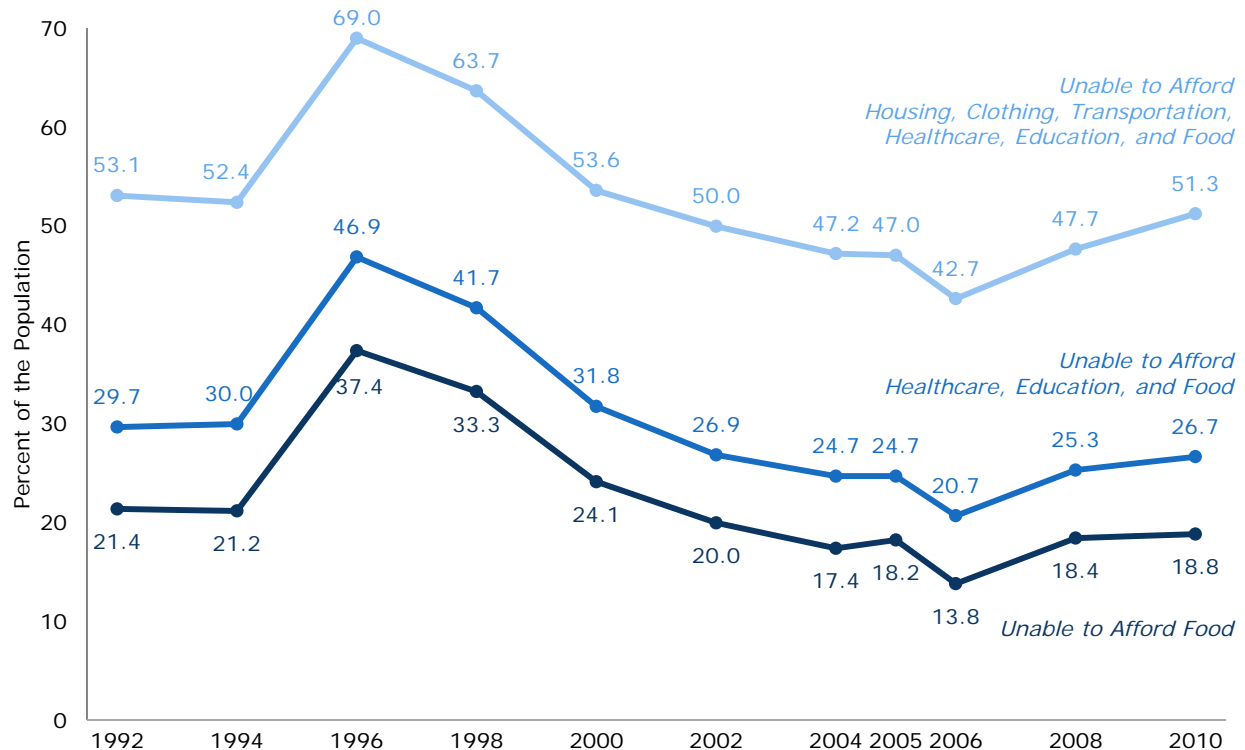
⁸ Weisbrot, Sandoval, and Paredes-Drouet (2006); see also Democracy Now! (2006).

⁹ Valenzuela and McCombs (2007).

Results of the Recession: Poverty and Unemployment

The inadequacy of the government's macroeconomic policy with respect to the world financial crisis and recession can be seen in Mexico's poverty statistics, shown in Figure 3. Although Mexico's poverty declined from 53.6 percent of the population in 2000 to 42.7 percent in 2006, almost all of these gains were wiped out by the recession. By 2010 the poverty rate was back up to 51.3 percent. This is the broadest official measure of poverty. The story is similar for a more narrow measure shown in Figure 3, with poverty defined as those unable to afford food, housing, and education; and for extreme poverty based on food needs.

FIGURE 3
Mexico: Poverty Levels Based on Consumption Baskets



Source: Consejo Nacional de Evaluación de la Política de Desarrollo Social (2010).

The quick reversal of the decline in Mexico's poverty rate is worth noting because the government did contribute directly to the poverty reduction since 2000, by expanding the main conditional cash transfer program for the poor, *Oportunidades*. The cash payments are made to mothers, and the program has expanded from 2.5 million families in 2000 to 5.8 million in 2011. The payments can total up to 450 pesos per month for a household (or more for those including older adults), not including scholarships and school supply funds for children; for comparison, the food poverty line is more than twice that amount, per capita (766 pesos in rural areas, 1084 pesos in urban areas).¹⁰ The number of families included rose by 10 percent in 2011, because the government eased the eligibility requirements; and by 2010 the government was spending 0.7 percent of GDP on the program. Yet, as we have seen, the effects of the recession wiped out almost all of the progress in poverty reduction over the prior decade. It is important to note that the poverty rates take government

¹⁰ Consejo Nacional de Evaluación de la Política de Desarrollo Social (2012) and Secretaría de Desarrollo Social (2012).

transfer payments into account; thus, the effect of the recession on poverty is in spite of these payments.¹¹

Unemployment also took a large jump with the recession, and has not returned to its pre-recession levels. The official unemployment rate, seasonally adjusted, rose from 3.6 percent in April 2008 to a peak of 6.0 percent in September 2009. This is shown in Figure 4. It has since declined to 5.0 percent in April 2012.

The rise of the official unemployment rate, and its failure to decline to pre-recession levels, is another important failure of economic policy. Proportionately, the jump from 3.6 to 6 percent, even after retreating to 5 percent, is a large increase – and since the data series is consistent, it is an important indicator of the worsening of the labor market. However, these numbers are small in absolute terms, because the official unemployment rate does not capture the full extent of unemployment in Mexico. In order to be counted as unemployed, a worker has to have not worked even one hour in paid activity during the reference period in which the survey was taken; and he or she must have been actively looking for work. But there are many people who would not be counted as unemployed in this data, who are not much employed.

This is partly because Mexico has almost no social safety net and no unemployment insurance outside of the Federal District. For this reason, heads of households especially will engage in some kind of economic activity in order to survive.¹² There is a very high level of informal labor; more than half of all workers are employed in units of less than five employees. For these and other reasons, movements in the official rate should be seen as an indicator of the proportionate deterioration (and recovery) of the labor market, and not as a measure of the actual level of unemployment.

A better but still important measure of the labor market can be seen in Figure 5, which shows official underemployment (defined as those who are working fewer hours than they need and are available to work). This more than doubled during the recession, from 6.3 to 13.2 percent. Nearly three years later, it is still at 8.3 percent.

The government did enact a short-term job-sharing program, the *Programa para la Preservación del Empleo* (PPE), in which the government paid employers to reduce workers' hours instead of eliminating jobs in high-technology manufacturing. The government credits PPE with preventing about 200,000 layoffs during 2009.¹³ If true, this would have aided about 0.5 percent of the labor force, and had a small but significant effect on the unemployment rate.

Meanwhile, real wages lost ground, shrinking by 4.6 percent between their peak in 2006 and 2010, or an average annual change of negative 0.7 percent per year (it is not uncommon for wages to peak a few quarters before the overall economy). The last year has seen a modest rebound, bringing the total decline to 3.5 percent.

¹¹ Consejo Nacional de Evaluación de la Política de Desarrollo (2009).

¹² See Salas (forthcoming) for more data and analysis of unemployment in Mexico.

¹³ Secretaría de Economía (2009).

FIGURE 4
Mexico, Unemployment, Seasonally Adjusted

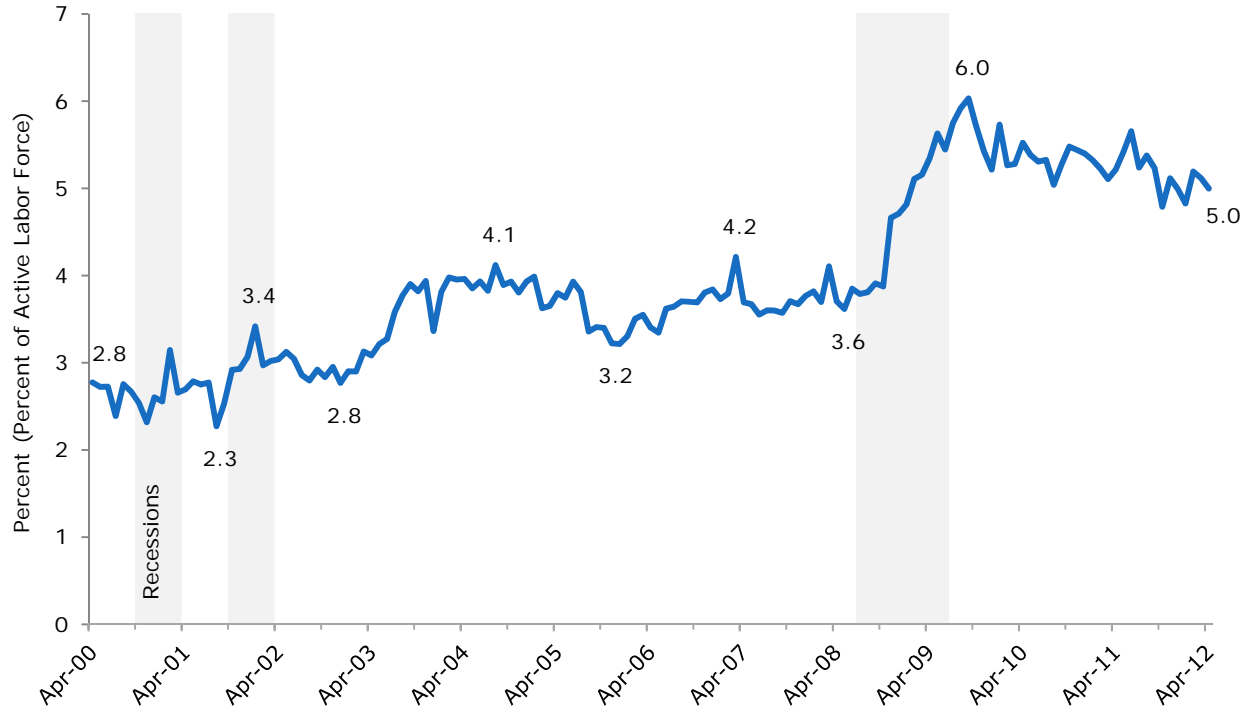
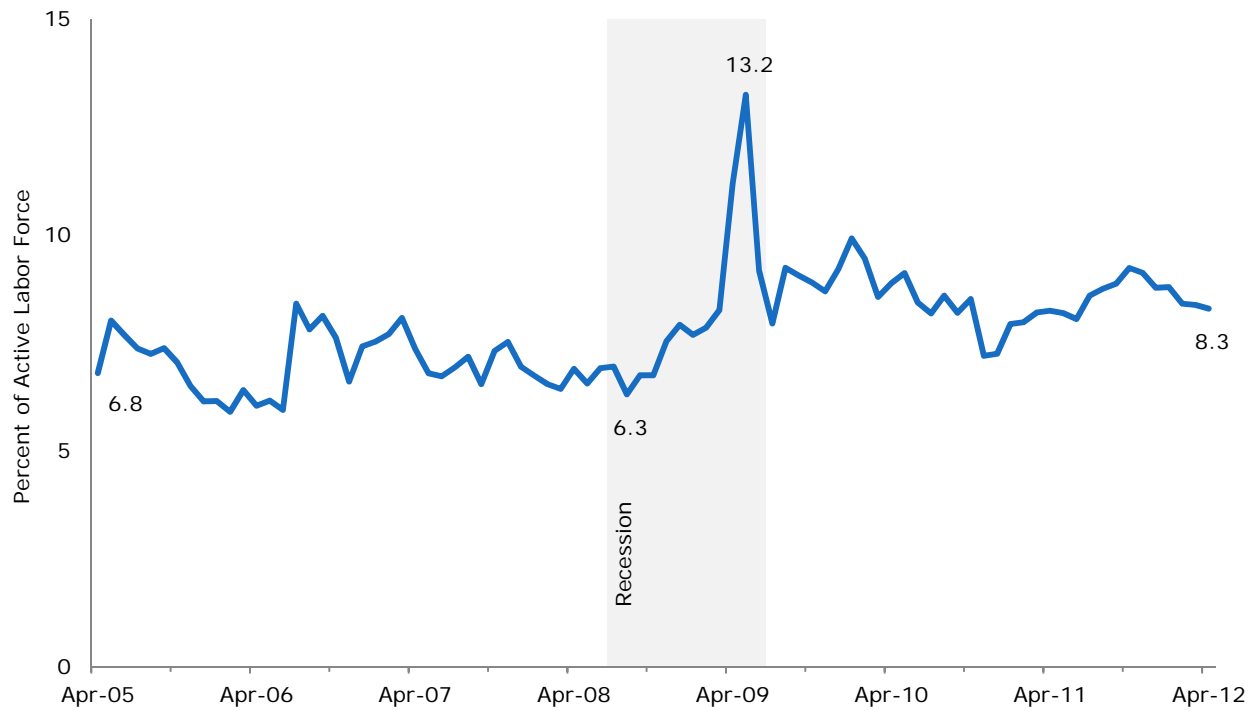


FIGURE 5
Mexico: Underemployment, Seasonally Adjusted



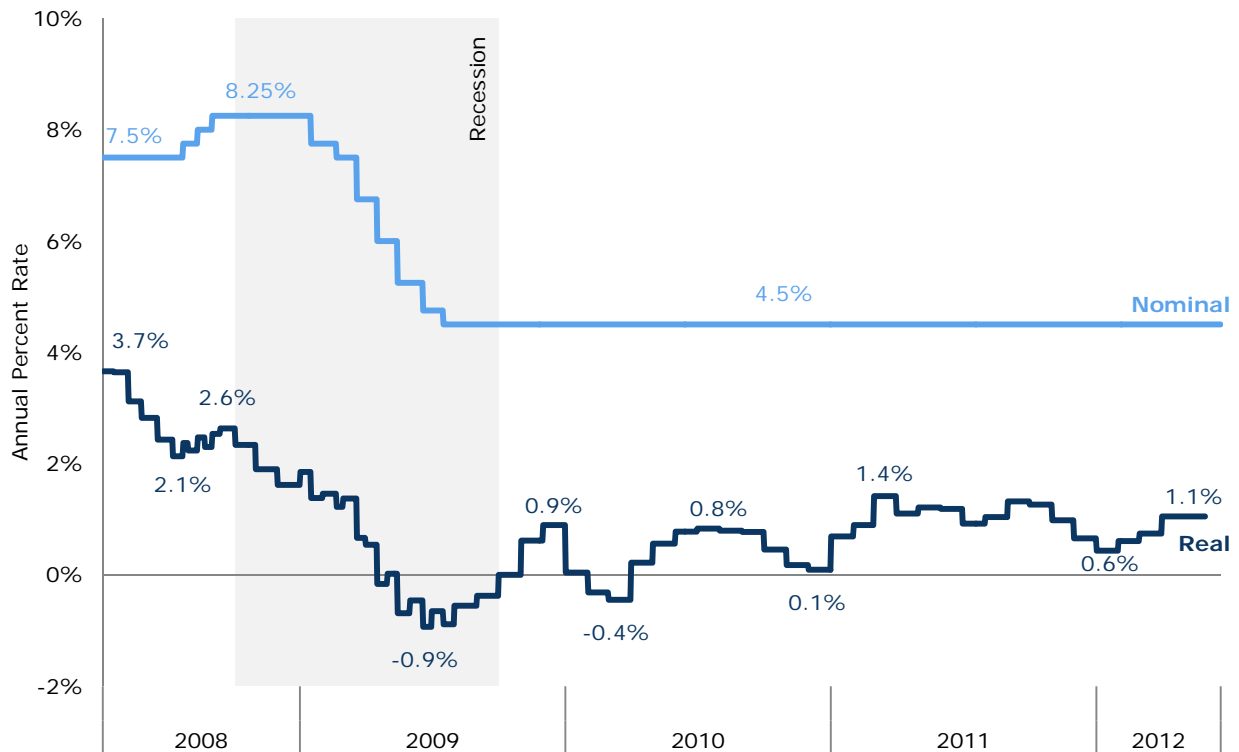
Source: Instituto Nacional de Estadística y Geografía (No Date).

The poverty and labor market statistics show how important it is for the authorities to conduct macroeconomic policy – fiscal, monetary, and exchange rate – in a way that promotes full employment. Although Mexico’s output shows a V-shaped recovery, with GDP reaching its pre-recession level after four quarters, it is clear that the labor market and the income of the most vulnerable has yet to recover. And as noted below, the government could have taken measures earlier that would have reduced the depth of the downturn.

The Influence of Policy on the Recession and Recovery

The depth of Mexico’s recession is a result of policy choices. Of course, the increase in Mexico’s integration with the U.S. economy – as opposed to a strategy of more diversification of exports and sources of investment – is a long-term policy choice and strategy. But there are also short-term policy choices that were made prior to and during the recession, as well as the recovery, that affected the outcome. As can be seen in **Figure 6**, the central bank had policy interest rates at 7.5 percent in 2007, and even raised them to 8.25 percent in mid-2008. The U.S. housing bubble began to burst in 2006, and by December of 2007 the U.S. economy was already in recession. Thus, the Mexican Central Bank’s monetary policy was much too conservative, and could have done much more to counteract the inevitable downturn – which was foreseeable as soon as the U.S. housing bubble began to burst, and certainly in 2007.

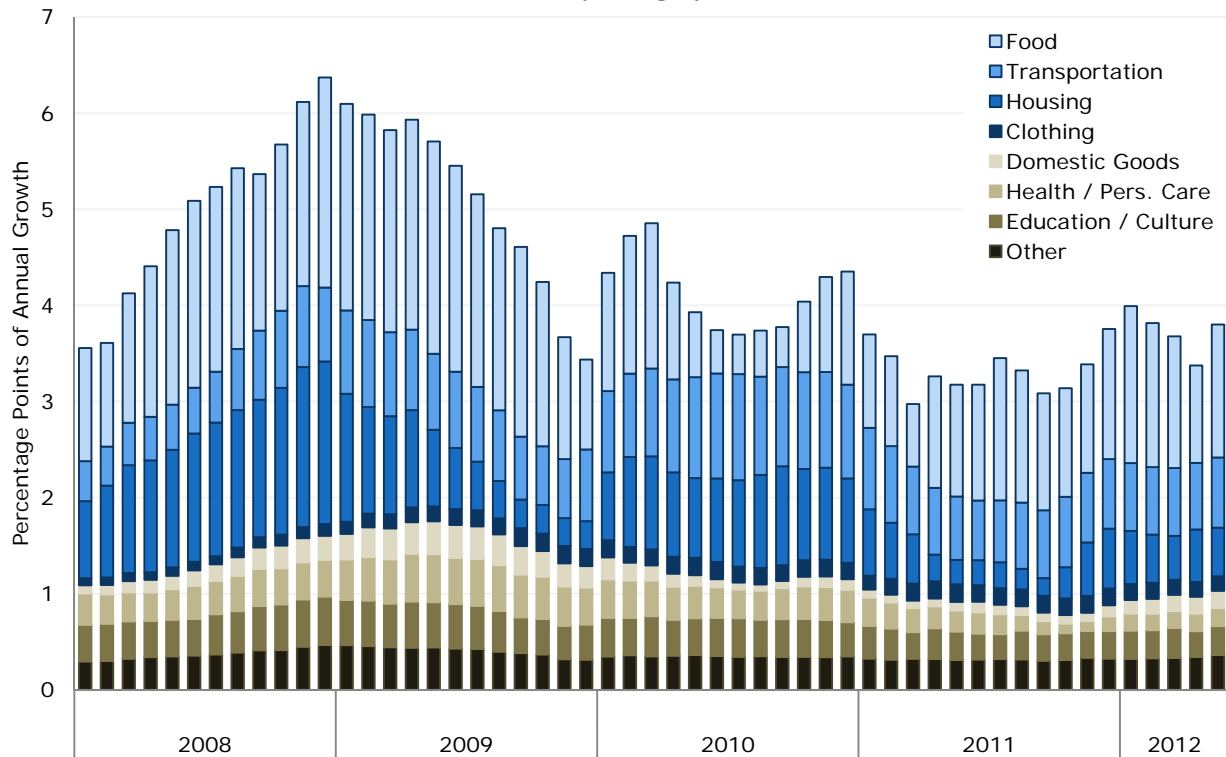
FIGURE 6
Mexico: Central Bank Target Interest Rates



Source: Banco de México (No Date, b), Instituto Nacional de Estadística y Geografía (No Date), authors’ calculations.

Mexico's Central Bank began lowering rates in January 2009, and over the next six months these fell to 4.5 percent, in July 2009, where they have remained. These cuts came too late given the time lag for monetary policy to have an impact, as noted above. The economy was already recovering in the same quarter of the last rate cut. In some circumstances this might be excusable, since policy makers generally don't know when the economy is in recession until after it starts. However, since this recession was foreseeable, it was a mistake to wait so long to cut interest rates. Furthermore, there was still much room to cut, as there was no serious risk of inflation – inflation began to fall with the onset of recession in early 2009, and has remained stable or falling since then (see **Figure 7**). Lowering interest rates further (below 4.5 percent) would also have pushed the peso down more and given a further boost to net exports.

FIGURE 7
Mexico: Year-over-Year Inflation, Contributions by Category



Source: Instituto Nacional de Estadística y Geografía (No Date), authors' calculations.

Another disadvantage in Mexico's monetary policy priorities can be seen in the volatility of capital flows. These are seen in **Table 1**. As can be seen, there was a falloff in foreign direct investment since the recession, which has yet to recover. However, portfolio investment has expanded by even more than direct investment has fallen: from less than 1 percent of GDP for the years 2002-2007, to 3.6 percent last year. Most of these inflows are in the public sector, involving foreign purchases of government securities. The IMF warned last year that Mexico could be vulnerable to a sudden reversal of these capital flows, and as the world economy has recently been weakened by the eurozone crisis, these downside risks have increased.¹⁴

¹⁴ International Monetary Fund (2011a).

TABLE 1
Mexico: Financial Account, in Percent of GDP

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total	3.2	2.9	2.0	2.3	0.3	2.5	2.7	2.1	3.8	4.5
Direct Investment	3.3	2.5	2.7	2.1	1.5	2.2	2.4	1.0	0.6	0.8
In Mexico	3.4	2.6	3.3	2.9	2.1	3.0	2.5	1.8	2.0	1.7
Abroad	-0.1	-0.2	-0.6	-0.8	-0.6	-0.8	-0.1	-0.8	-1.3	-0.8
Portfolio Investment	0.0	0.6	0.4	-0.4	-0.2	0.0	1.0	-0.6	2.9	3.6
Liabilities	-0.2	0.4	0.7	0.9	0.0	1.3	0.4	1.7	3.6	3.6
<i>Public</i>	-0.4	0.0	0.7	-0.5	-0.8	0.2	0.1	1.1	2.7	3.2
<i>Private</i>	-0.3	-0.2	-0.6	0.8	0.3	0.3	-0.6	0.7	0.9	0.4
<i>Pidiregas Liabilities</i>	0.5	0.7	0.6	0.6	0.5	0.8	0.9	0.0	0.0	0.0
Assets	0.3	0.2	-0.2	-1.3	-0.2	-1.3	0.5	-2.3	-0.8	0.1
Other Investment	-0.1	-0.2	-1.1	0.6	-1.0	0.2	-0.6	1.7	0.3	0.1
Liabilities	-0.4	-0.5	-0.5	-0.1	-0.2	1.0	0.5	0.7	1.5	-0.2
<i>Public</i>	-0.3	-0.5	-0.6	-0.4	-1.2	-0.1	0.1	1.3	0.5	0.0
<i>Private</i>	-0.4	-0.3	-0.1	-0.2	0.8	0.6	0.2	-0.7	1.0	-0.2
<i>Pidiregas Liabilities</i>	0.3	0.2	0.2	0.5	0.2	0.5	0.3	0.0	0.0	0.0
Assets	0.2	0.3	-0.6	0.7	-0.7	-0.8	-1.2	1.0	-1.3	0.3

Source: Instituto Nacional de Estadística y Geografía (No Date). Note: rows may not add to totals due to rounding.

This illustrates another problem with the inflation targeting regime of Mexico's Central Bank. By orienting its monetary policy toward a low inflation target, the Central Bank attracts capital inflows with relatively high interest rates when markets are in a "risk-on" mood. This can contribute to a temporary appreciation of the exchange rate, which the Central Bank is not targeting. These capital inflows can reverse suddenly, adding volatility not only to the exchange rate but also to the economy.

As can be seen in **Figure 8**, Mexico's Real Effective Exchange Rate (REER) did depreciate by 16.4 percent with the recession. This gave some boost to exports, and looking at the annual data presented in **Figure 9** we can see that net exports contributed 2.1 percentage points to GDP growth in 2009. Nonetheless, the economy declined by 6.2 percent that year, and we can see that net exports contributed almost nothing to GDP growth for 2010. This is because exports have not grown fast enough during most of the recovery to outpace imports, which also recovered rapidly. Thus a more aggressive monetary policy could have not only limited the downturn but contributed to a faster recovery by lowering the exchange rate further and keeping it down longer. As can be seen in **Figure 6**, the REER recovered from most of its drop relatively quickly after the onset of the recession; although it has recently fallen again with the weakness and crises in the global economy.

FIGURE 8
Mexico: Real Effective Exchange Rate, CPI Method

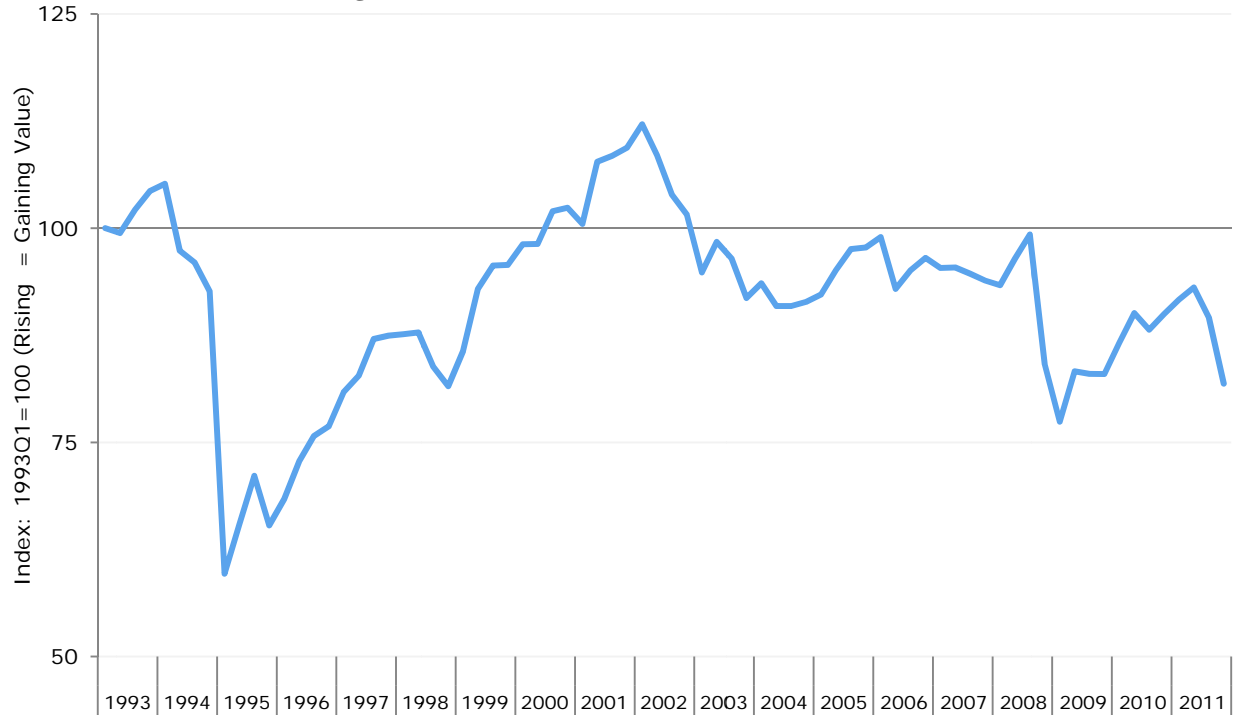
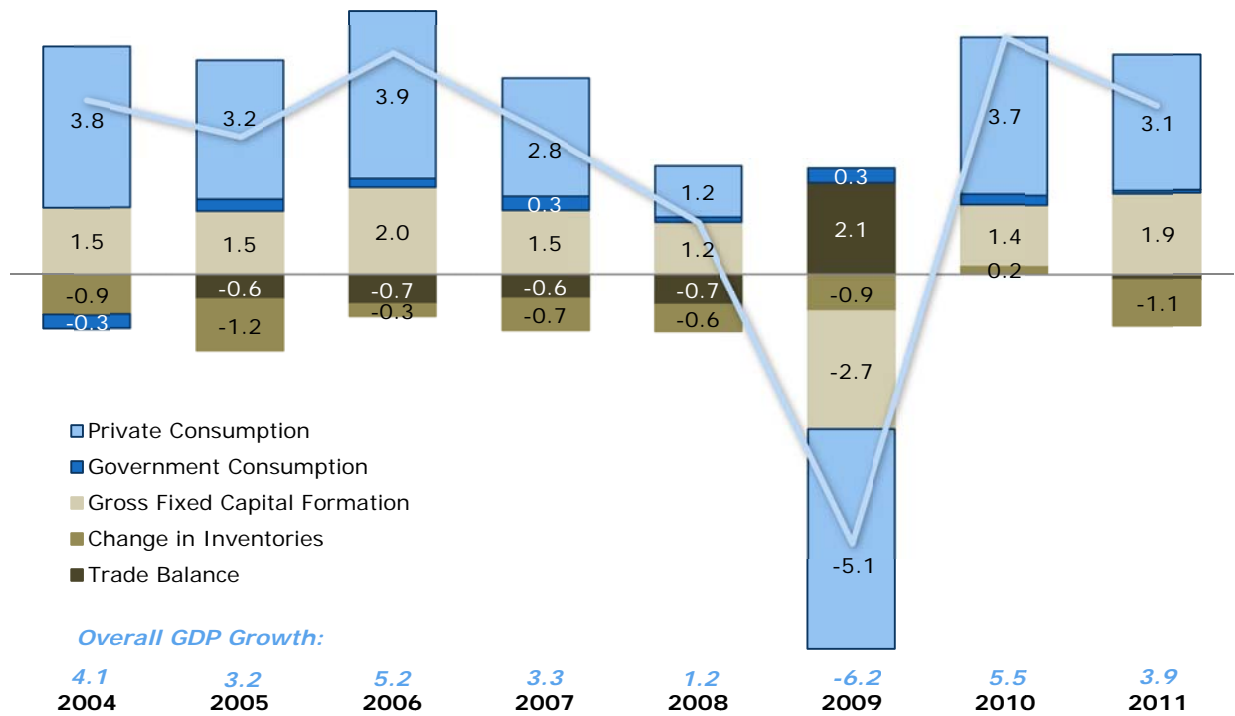


FIGURE 9
Mexico: Contributions to GDP Growth by Expenditure Type



Source: Instituto Nacional de Estadística y Geografía (No Date), authors' calculations.

The Central Bank's failure to combat the recession more effectively is an example of the problems with its overly conservative, inflation-targeting regime. As the economy was headed toward an inevitable recession in 2008, the Central Bank was too worried about an increase in inflation, which can be seen in Figure 5. But the increase in inflation, much of it driven by world commodity prices – for example, global food prices rose 18 percent in 2008 – was the least of the economy's problems, and would soon begin to fall with the recession.¹⁵ Also, an inflation target of 3 percent may be too low for a developing country that has as much poverty and unemployment as Mexico; it sacrifices growth and employment that is badly needed, and may account for some of the country's poor economic performance since 2000.

The government pursued an expansionary fiscal policy to counteract the downturn, which according to the IMF amounted to 3 percent of GDP.¹⁶ However its impact on employment and growth was probably much smaller than what would be indicated by the increase in government spending, because half of it was an increase in capital expenditures in the state owned oil company, PEMEX. This can be seen in **Table 2**. The government increased investment in oil exploration. The number of exploratory wells rose from 65 in 2008 to 75 in 2009, while the number of wells in development rose from 664 in 2008 to 1,075 in 2009 and 1,264 in 2010, and the number of finished wells grew from 729 in 2008 to 1150 and 1303. While this may be a good long-term investment if it increases future oil production, its effectiveness as a stimulus to counteract an economic downturn was probably limited. Also, the increased public-sector investment was not enough to offset decreases in the private sector, and total gross fixed capital formation fell by 11.8 percent in 2009. As **Figure 10** shows, the decline in total gross fixed capital formation contributed negative 2.7 percentage points to GDP growth in 2009. Finally, most of the growth in public investment actually took place the following year, after private investment had already begun to recover, helping to pull the economy out of the recession in 2010 but too late to have much impact on 2009.

¹⁵ Food and Agriculture Organization of the United Nations (No Date).

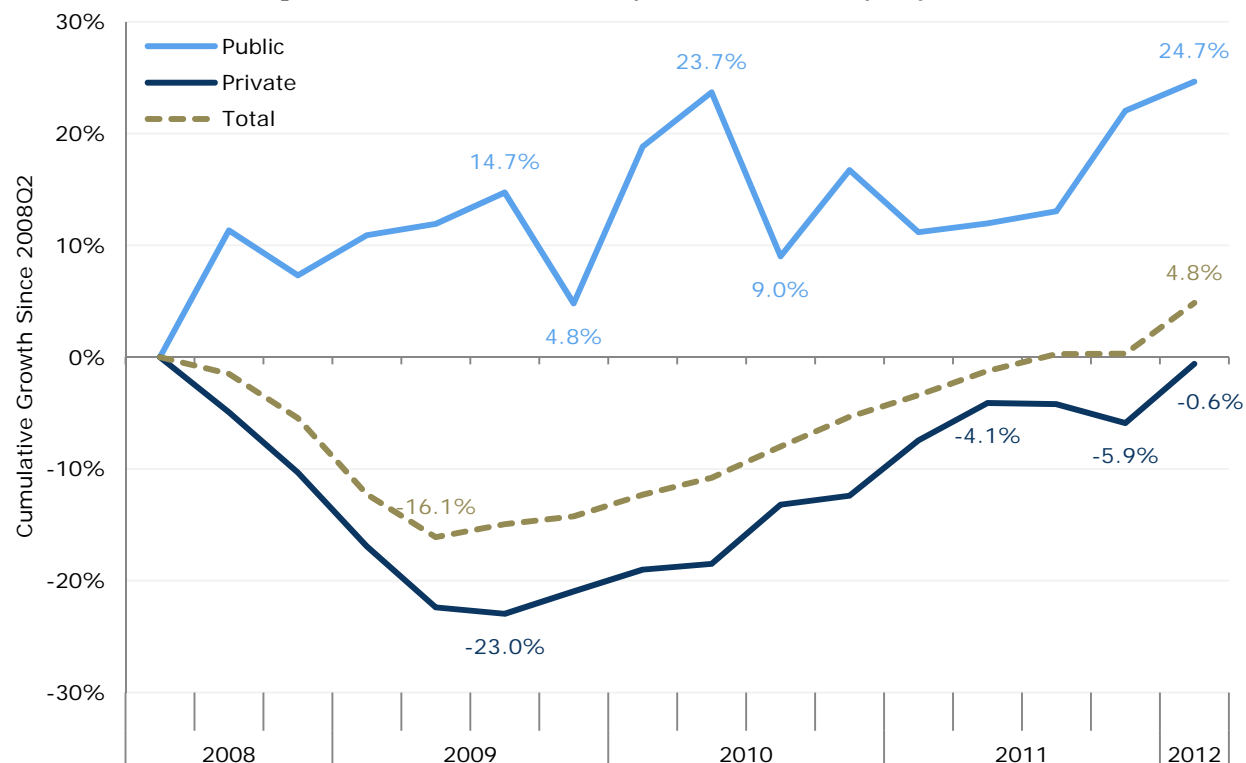
¹⁶ International Monetary Fund (2011b).

TABLE 2
Mexico: Non-Financial Public Sector Balance, in Percent of GDP

	2007	2008	2009	2010	2011	2012
Budgetary Revenue:	22.0	23.5	23.8	22.6	21.9	22.1
Federal Government	15.2	16.9	16.9	15.9	15.5	15.6
PEMEX	3.3	3.0	3.2	2.9	2.6	2.7
Public Enterprise	6.9	6.7	6.9	6.7	6.3	6.5
Other	3.5	3.7	3.7	3.8	3.7	3.7
Budgetary Expenditure	22.0	23.6	26.1	25.5	24.4	24.5
Programmable Primary Expenditure	16.8	18.2	20.6	20.0	18.8	18.8
Current	13.2	13.8	15.4	15.0	14.0	14.6
Wages	5.8	5.8	6.5	6.1	6.0	6.1
Pensions	2.1	2.1	2.4	2.6	2.7	2.9
Subsidies and transfers	2.3	2.7	3.1	3.1	2.7	2.8
Other Current Spending	3.0	3.2	3.4	3.2	2.6	2.8
Capital	3.6	4.4	5.1	5.0	4.8	4.2
Physical capital	2.8	3.1	4.6	4.8	4.7	4.1
PEMEX	0.3	0.6	2.1	2.1	2.1	2.1
Other	2.5	2.5	2.5	2.7	2.6	2.0
Financial capital	0.8	1.3	0.5	0.3	0.1	0.2
Non-Programmable Primary Exp.	3.1	3.6	3.3	3.5	3.5	3.5
Interest Payments	2.1	1.9	2.2	2.0	2.1	2.2
Adjustments	-1.2	-1.0	-2.4	-1.5	-0.5	-0.4
Nonrecurring revenue	-0.6	-0.5	-1.3	-0.4	-0.2	-0.1
Budgetary adjustments	-0.4	-0.3	-0.3	-0.4	-0.3	-0.2
Other	-0.2	-0.2	-0.8	-0.7	0.0	-0.1
Augmented balance (incl. adjustments)	-1.2	-1.1	-4.7	-4.3	-3.0	-2.8

Note: Data for 2012 are IMF projections. Source: International Monetary Fund (2011).

FIGURE 10
Mexico: Gross Fixed Capital Formation, Real Quarterly Growth (Seasonally Adjusted)



Source: Instituto Nacional de Estadística y Geografía (No Date).

Also, as with monetary policy, the fiscal stimulus was not only too little, but too late. As noted above, the U.S. housing bubble had burst and the recession there was already underway by the end of 2007. Even in the United States, where policy makers somehow missed the housing bubble until after it had burst, and were slow to recognize its implications, the first stimulus package was approved by the U.S. Congress and signed into law in February of 2008.

Mexico has a relatively low level of public debt, at about 32 percent of GDP, and especially foreign public debt – which is the more binding constraint – at about 10 percent of GDP.¹⁷ The government therefore had plenty of room to borrow as necessary in order to pursue the appropriate fiscal stimulus policies.

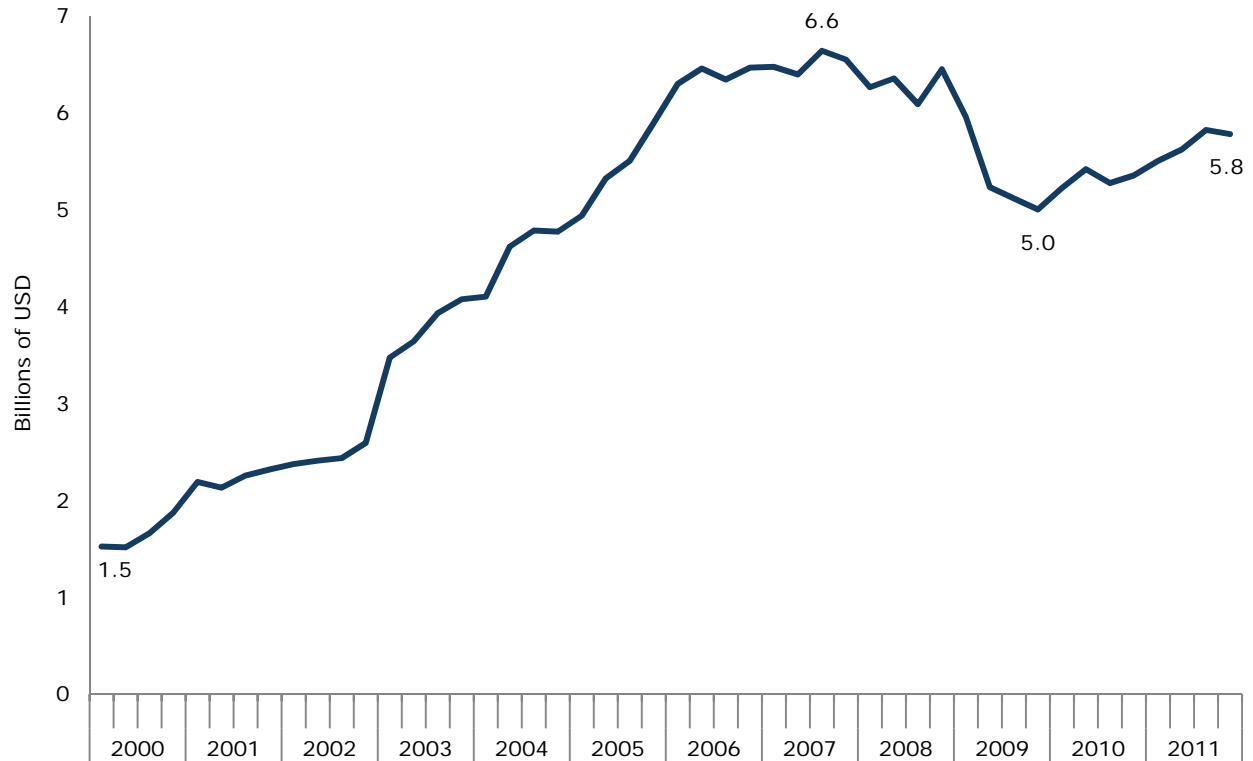
Exports and Remittances

About 80 percent of Mexico's merchandise exports go to the U.S., and Mexico is also affected by capital flows from the U.S.¹⁸ As can be seen in **Figure 11**, remittances also fell by over 20 percent with the recession in the U.S., from \$6.6 billion in the third quarter of 2007 to \$5.0 billion in the fourth quarter of 2009.

¹⁷ Secretaría de Hacienda y Crédito Público (No Date).

¹⁸ Banco de México (No Date), International Monetary Fund (2012), authors' calculations.

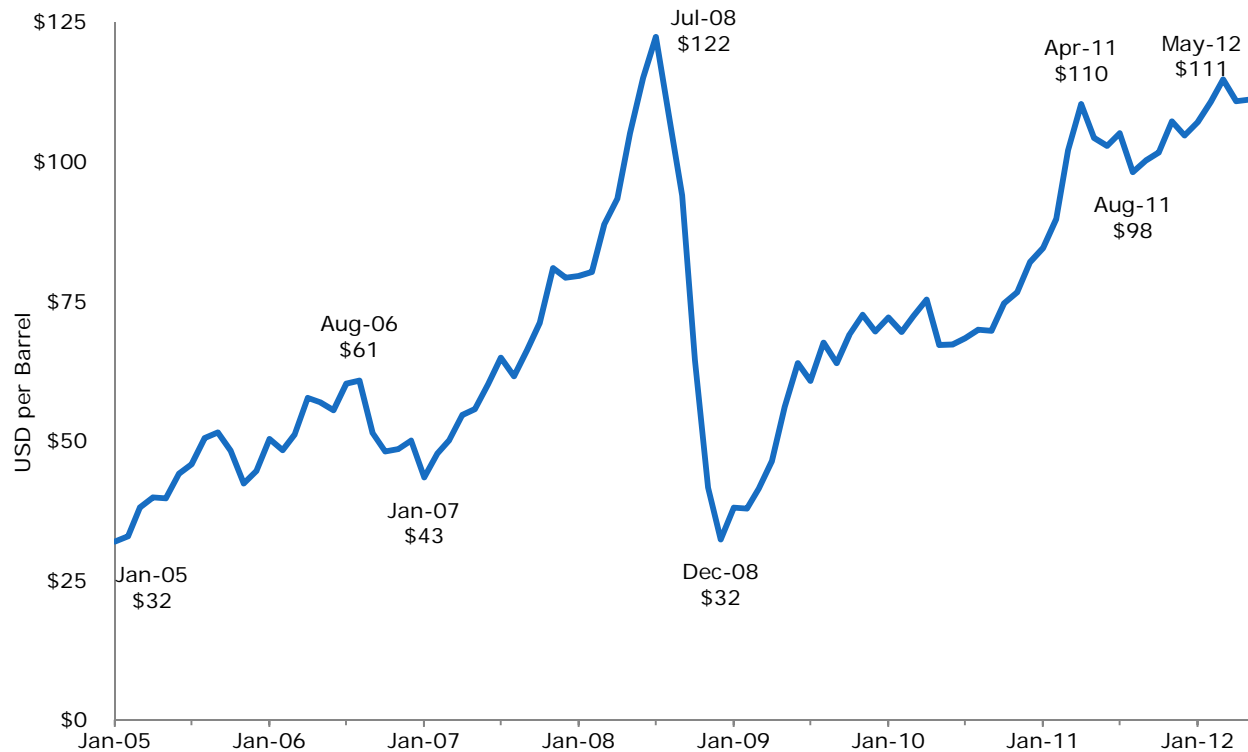
FIGURE 11
Mexico: Remittances from Abroad (Quarterly, Seasonally Adjusted)



Source: Instituto Nacional de Estadística y Geografía (No Date), authors' calculations.

Mexico is also an oil-producing country and oil accounts for about one-third of government revenue. In 2011, petroleum exports accounted for 16.1 percent of all exports. Mexico was therefore hit significantly by the oil price collapse that began in the last quarter of 2008. However it has also benefitted from the run-up in oil prices both before the 2008 collapse and also since 2009. The price of Mexico's oil is shown in **Figure 12**.

FIGURE 12
Mexico: Price of Mexican Basket of Petroleum Exports



Source: Fundar (No Date), Servicio Geológico Mexicano (No Date), authors' calculations.

Conclusion: The Economy, Elections and the Media

The Mexican economy has performed badly since 2000, with less than half the per capita income growth of the average for the rest of Latin America. It had the deepest recession in the Americas, in terms of lost output, and poverty and employment have yet to recover to their pre-recession levels. This paper has looked at some of the policy choices that may have contributed to both the longer term failure and the problems with the recession and recovery. The failures of the Mexican economy are likely to have contributed to the fall in the ruling party's (PAN) support.

The poor performance of the Mexican economy over the past 11 years follows a long-term growth collapse of the prior two decades (1980-2000). This was the shared experience of the rest of Latin America, and as noted above, led to the election of left governments in most of the region. For a variety of reasons, Mexico moved instead to the right in 2000 and stayed there in 2006; it remains to be seen whether the challenger from the left, Andrés Manuel López Obrador, will do better in the upcoming election.

As noted above, the 1988 election was widely regarded as having been stolen from the left. In 2006, there were allegations of fraud but no compelling evidence was introduced to show that fraud had influenced the outcome. However, irregularities were so widespread that, given the 0.58 percentage point margin separating PAN candidate Felipe Calderón from the PRD's Andrés Manuel López Obrador, the true outcome was indeterminate. This can be seen from an examination of the records

for the ballot boxes in the election: more than half of these ballot boxes had irregularities, most importantly in not “adding up.” Election workers receive a specific number of paper ballots for each ballot box, and are instructed to keep track of them. The number of votes counted plus the leftover blank ballots should equal the number received; but in the majority of the 130,777 ballot boxes, this did not occur.¹⁹

Furthermore, before the 2006 election results were decided, a partial recount was conducted that was quite large, involving about 9 percent of the ballot boxes. But the result of this recount was never released, most likely because it would have greatly increased pressure for a full recount. Using data released by the Mexican electoral authorities, the Center for Economic and Policy Research was able to tally the votes for a random sample of 14.4 percent of the 11,839 recounted ballot boxes.²⁰ In this random sample, Calderón lost 0.54 percent of his votes; while López Obrador had a very slight gain.

The 2006 election was also heavily influenced by the Mexican media. A regression analysis of the impact of the media in the 2006 election found that about half of the variance in voters’ choices could be explained by media coverage, with more favorable coverage associated with higher support. The study also “found an overall negative coverage of the leftist candidate López Obrador compared to his two main rivals, Calderón and Madrazo. A similar pattern was evident in the 2000 election (see Lawson & McCann, 2005), when Televisa and TV Azteca supported the PAN and PRI candidates against the PRD nominee.” Given the closeness of the 2006 election, if the results of this study are even partially true, it would be enough for the media to have determined the result of the 2006 election.

Media bias became a significant issue in the current election, with thousands of protesters taking to the streets against Mexico’s two biggest television stations on May 23. According to Bloomberg News, Televisa has about 70 percent of the broadcast TV market, with TV Azteca controlling almost all of the rest.²¹ In the current presidential campaign, the media duopoly ran into criticism for not broadcasting nationally the first presidential debate on May 6. Then, the student protestors were dismissed in the media as outside agitators. This led to a protest movement against the TV media called “Yo soy #132” (I am # 132), after 131 of the initial protestors produced a viral video showing their student i.d.’s, i.e. to indicate that they were genuine students. Determined not to allow presidential debate to be sidelined, the “Yo soy 132” movement organized its own debate which it streamed online. All the major presidential candidates except for Peña Nieto participated.²²

There are of course many other factors that will influence the outcome of this election, including campaign spending, other political issues (the 60,000 deaths attributed to the “war on drugs” since 2006 seem not to have come up much in the candidates’ debates), and the candidates’ individual attributes and personalities. But Mexico’s economic failure, both recently and over the past three decades, should be a big part of any explanation of Mexican politics.

¹⁹ Weisbrot, Sandoval and Paredes-Drouet (2006).

²⁰ Center for Economic and Policy Research. 2006.

²¹ Harrison (2012).

²² EFE (2012).

References

- Astorga, Pablo, Ame R. Bergés, and Valpy Fitzgerald. 2005. "The Standard of Living in Latin America During the Twentieth Century" *The Economic History Review*. Vol. 58, No. 4 (November), 765-796.
- Banco de México. (No Date.) "Sistema de Indicadores Económicos." Online database, consulted June 8, 2012. <http://www.banxico.org.mx/SieInternet/>
- Casey, Nicholas and José de Córdoba. 2012. "Mexicans Protest Ties Between Politics, Media Movement Says Two Networks Are Acting To Return Ex-Ruling Party to Presidency." *The Wall Street Journal*. May 23, 2012.
<http://online.wsj.com/article/SB10001424052702304065704577422583424185496.html#articleTabs%3Dinteractive>
- Center for Economic and Policy Research. 2006. "CEPR Adds up Available Recount Data, Finds Significant Vote Reduction for Calderon." Press Release. September 2, 2006.
<http://www.cepr.net/index.php/press-releases/press-releases/cepr-adds-up-available-recount-data-finds-significant-vote-reduction-for-calderon>
- Consejo Nacional de Evaluación de la Política de Desarrollo Social. 2009. "Metodología para la medición multidimensional de la pobreza en México." México DF. CONEVAL.
http://web.coneval.gob.mx/Informes/Coordinacion/INFORMES_Y_PUBLICACIONES_PDF/Metodologia_Multidimensional_web.pdf
- Consejo Nacional de Evaluación de la Política de Desarrollo Social. 2012. "Líneas de Pobreza por ingreso en México, enero 1992 a mayo 2012." Online database, consulted June 21, 2012.
http://web.coneval.gob.mx/Informes/Pobreza%20por%20ingresos%202010/Pobreza_por_ingresos_2010_b.zip.
- Democracy Now! 2006. "Was the Mexican Election Stolen? Questions Raised Over Results From Preliminary Recount" Thursday, August 24, 2006.
http://www.democracynow.org/2006/8/24/was_the_mexican_election_stolen_questions
- EFE. 2012. "Mexican student movement stages presidential debate," June 20, 2012.
<http://latino.foxnews.com/latino/politics/2012/06/20/mexican-student-movement-stages-presidential-debate/>
- Food and Agriculture Organization of the United Nations. No Date. "FAO Food Price Index." Online database, consulted June 21, 2012. <http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/>.
- Fundar, Centro de Análisis e Investigación A.C. No Date. "Precio Diario de la Mezcla Mexicana de Petróleo." Online database, consulted June 15, 2012.
<http://www.fundar.org.mx/ingresospetroleros/4abase/xls/diariopetroleo.xls>.

- Harrison, Crayton. 2012. "Televisa, Mexican Cable Companies Seek Third TV Network." Bloomberg. May 31, 2012. <http://www.bloomberg.com/news/2012-05-31/televisa-mexico-cable-industry-call-for-new-broadcast-network.html>
- Instituto Nacional de Estadística y Geografía. No Date. "Banco de Información Económica." Online database, consulted June 11, 2012. <http://www.inegi.org.mx/sistemas/bie/>.
- International Monetary Fund. 2011a. "2011 Article IV Consultation." <http://www.imf.org/external/pubs/ft/scr/2011/cr11250.pdf>.
- International Monetary Fund. 2011b. "Mexico: Review Under the Flexible Credit Line Arrangement — Staff Report; and Press Release on the Executive Board Discussion." <http://www.imf.org/external/pubs/ft/scr/2011/cr11367.pdf>.
- International Monetary Fund. 2012. "World Economic Outlook Database, April 2012 Edition." Online database, consulted June 8, 2012. <http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx>.
- International Monetary Fund. No Date. "e-Library Data." Online database, consulted June 9, 2012. <http://elibrary-data.imf.org/>.
- Salas, Carlos. Forthcoming. "La ocupación en México en el período 1995-2010: Los hechos y los desafíos."
- Secretaría de Desarrollo Social. 2012. "Histórico de Apoyos Monetarios Mensuales Autorizados Por la SHCP." Online database, consulted June 21, 2012. http://www.oportunidades.gob.mx/Portal/wb/Web/oportunidades_historico.
- Secretaría de Economía. 2009. "Informe de Evaluación Correspondiente al Cuarto Trimestre Del Ejercicio Fiscal 2009 Sobre el Presupuesto Ejercido, a Nivel de Capítulo y Concepto de Gasto, Así Como el Cumplimiento de Metas y Objetivos con Base en los Indicadores de Resultados Establecidos en las Reglas de Operación de los Fondos y Programas a Cargo de la Secretaría de Economía, Señalados en el Anexo 18 del Presupuesto de Egresos de la Federación para al Ejercicio Fiscal 2009." http://www.economia.gob.mx/files/transparencia/IT4_PRO09_02022010.pdf.
- Secretaría de Hacienda y Crédito Público. (No Date.) "Deuda Pública." Online database, consulted June 20, 2012. http://www.shcp.gob.mx/POLITICAFINANCIERA/FINANZASPUBLICAS/Estadisticas_Oportunas_Finanzas_Publicas/Informacion_mensual/Paginas/deuda_publica.aspx.
- Servicio Geológico Mexicano. No Date. "Sistema Integral sobre Economía de Minerales." Online database, consulted June 15, 2012. <http://portalweb.sgm.gob.mx/economia/es/indicador-mercado.html>.
- Thompson, Ginger. 2004. "Ex-President in Mexico Casts New Light on Rigged 1988 Election," *New York Times*, March 9, consulted June 25, 2012. <http://www.nytimes.com/2004/03/09/world/ex-president-in-mexico-casts-new-light-on-rigged-1988-election.html>.

Valenzuela, Sebastian and Maxwell McCombs. 2007. "Agenda-setting Effects on Vote Choice: Evidence from the 2006 Mexican Election." Paper Presented at the Political Communication Division of the International Communication Association, May 2007.

<http://web.mit.edu/clawson/www/polisci/research/mexico06/ICA%202007%20Mexican%202006%20Election.doc>

Weisbrot, Mark. 2006. "Latin America: The End of an Era." Center for Economic and Policy Research. Issue Brief (December).

http://www.cepr.net/documents/publications/end_of_era_2006_12.pdf.

Weisbrot, Mark and Rebecca Ray. 2012. "The Scorecard on Development, 1960-2010: Closing the Gap?" Center for Economic and Policy Research and United Nations DESA Working Paper No. 106. www.un.org/esa/desa/papers/2011/wp106_2011.pdf

Weisbrot, Mark, Luis Sandoval and Carla Paredes-Drouet. 2006. "An Analysis of Discrepancies in the Mexican Presidential Election Results." Center for Economic and Policy Research. Issue Brief. August. <http://www.cepr.net/index.php/publications/reports/an-analysis-of-discrepancies-in-the-mexican-presidential-election-results>

World Bank. No Date. "World Development Indicators." Online database, consulted June 18, 2012. <http://databank.worldbank.org/data/home.aspx>.