

A FALTA DE PAN, TORTILLAS:
Mexican Economists on the Current Crisis

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- EL CAPITALISMO MEXICANO EN LOS OCHENTA. By JOSE VALENZUELA FEIJOO. (Mexico City: Ediciones Era, 1986. Pp. 187.)
- ORIGINES DE LA CRISIS EN MEXICO. By HECTOR GUILLEN ROMO. (Mexico City: Ediciones Era, 1984. Pp. 140.)
- CAUSAS Y EFECTOS DE LA CRISIS ECONOMICA EN MEXICO. By PASCUAL GARCIA ALBA and JAIME SERRA PUCHE. (Mexico City: El Colegio de México, 1984. Pp. 153.)
- LA VERDAD DEL PACTO. By ANGEL MATTIELLO. (Mexico City: Editorial Planeta, 1988. Pp. 192.)
- EL PACTO: ¿OTRO ENGAÑO MAS O LA GRAN ESPERANZA? By LUIS PAZOS. 5th edition. (Mexico City: El Caballito, 1987. Pp. 107.)
- CRISIS Y COYUNTURA DE LA ECONOMIA MEXICANA. By LUIS ANGELES. (Mexico City: Ediciones de Cultura Popular, 1987. Pp. 220.)
- ECONOMIA MEXICANA, MAS ALLA DEL MILAGRO. By ARTURO HUERTA GONZALEZ. (Mexico City: Ediciones de Cultura Popular, 1987. Pp. 246.)
- MEXICO, "EL PAIS QUE PERDIMOS." By BENITO REY ROMAY. (Mexico City: Siglo Veintiuno, 1987. Pp. 118.)
- CRISIS AGRICOLA Y ALIMENTARIA EN MEXICO, 1982–1988. By JOSE LUIS CALVA. (Mexico City: Fontamara, 1988. Pp. 230.)
- EL DILEMA DE LA ECONOMIA MEXICANA: ENSAYOS DE INTERPRETACION. By JESUS LECHUGA MONTENEGRO. (Mexico City: Ediciones de Cultura Popular, 1987. Pp. 237.)
- LA INFLACION EN MEXICO. Compiled by ALAIN IZE and GABRIEL VERA. (Mexico City: El Colegio de México, 1984. Pp. 277.)
- MEXICO EN EL GATT: VENTAJAS Y DESVENTAJAS. Compiled by GUSTAVO DEL CASTILLO. (Tijuana: El Colegio de la Frontera Norte, 1986. Pp. 106.)
- EL ESTADO EMPRESARIO EN MEXICO: ¿AGOTAMIENTO O RENOVACION? Compiled by MARIA AMPARO CASAR and WILSON PERES. (Mexico City: Siglo Veintiuno, 1988. Pp. 240.)

The last two decades have witnessed intensified usage of the word *crisis* to describe the overall economic context in Mexico. This trend can be observed not merely in the frequency with which this characterization appears. The situation described as a crisis has consistently worsened in terms of such standard economic indicators as production, employment, and inflation, except during the brief and illusory oil boom. At the same time, a consensus has emerged among writers from various economic schools about the existence and seriousness of these problems, and even to some extent about which factors are to blame. One does not encounter similar agreement, however, on what measures are needed to resolve the crisis. Indeed, this review essay will argue that as the Mexican economy has worsened, each solution attempted has proved insufficient, thereby eroding prior consensus. In particular, the policies previously applied to correct the crisis are now judged to have been insufficient because they were short-term in nature. Mexico's economic problems are now viewed as requiring more fundamental, longer-term solutions, about which there is inevitably less agreement.

These changes in the Mexican economic situation and interpretations of its causes and remedies take on greater importance in the context of the recent presidential election and the events accompanying it. Any significant change in policy orientation will require the support of large numbers of Mexicans who were significantly hurt by the economic policies of the previous administration, many of whom did not vote for the ruling party's candidate. The purpose of this review, therefore, is to note some of the different contributions being made to the analysis of Mexico's economic problems, around the traditionally significant juncture of a change in presidential administrations.

Background

The customary starting point for a historical overview of the Mexican economy in recent years is the period during the 1960s of *desarrollo estabilizador*, which was characterized by steady growth, low inflation, a stable exchange rate, and relatively balanced government budgets. During the 1970s, however, this steady growth disappeared, and conditions worsened to the point that a major financial crisis in 1976 required a large devaluation, which was surpassed in magnitude by yet another devaluation only six years later.

After taking office in late 1982, President Miguel de la Madrid struggled to get the economy under control, especially the problematic foreign debt. According to Luis Pazos, this *sexenio* saw six different economic development plans. As of mid-1988, the balance of payments was strong enough to permit punctual servicing of the foreign debt,

while inflation rates were also down due to a program severely limiting price and wage increases. Many analysts believed nevertheless that tremendous inflationary potential still existed, threatening hyperinflation and its accompanying economic disintegration in both internal and external accounts once these controls were relaxed. The end of the sexenio was typically a time of great uncertainty, recalling too vividly the events of 1976 and 1982.

Exhaustion of Which Development Strategy?

Conventional wisdom is now challenging those happy memories of healthy growth with stability in the late 1950s and 1960s. Agricultural production is deemed to have lost its strong impetus in the mid-1960s, and most observers agree that import substitution too had run out of steam before the first oil shock. Income distribution in Mexico has never been judged satisfactory. The question thus arises as to where the longer-term sources of the current crisis lie—in the personalities and policies of economic and political leaders after 1970, or in the growth strategy that crystallized in the 1940s? The former interpretation allows for recuperation of growth with only minor adjustments, but the latter view, if correct, demands a fundamental reorientation of Mexican economic life. Most of the books under review reflect the increasing pessimism in Mexico, the belief that the growth and stability of the previous decades are not recoverable under the earlier development strategy.

Without doubt, the most important political actor to acknowledge the exhaustion of the postrevolutionary development model was President José López Portillo, in his sixth *Informe* to the nation in 1982. Yet economists across the ideological spectrum have been voicing this opinion for some years.¹ Perhaps more noteworthy is the change in tone in the overall analysis. The attention of Mexican economists has progressively focused more closely on the short-term performance of the government and the economy, as each of the recent “anti-crisis” plans became more desperate in the wake of the failures of their immediate predecessors. One aspect of this process has been the greater perceived need for a merely accurate description of the magnitude of the problems facing the country, given the fact that triple-digit inflation, falling oil prices, and debt-service payments are relatively new problems that are causing constraints of an unprecedented severity.²

Some rather unexpected changes in subject matter can also be noted. Relatively little interest has been shown in the question of whether the crisis is due more to internal causes than to external causes.³ Many sympathetic non-Mexican observers typically blame most of the country’s problems on the external environment, an argument favoring the view that nations like Mexico deserve special treat-

ment in debt renegotiations. This debate, however, appears to have become moot among Mexican economic analysts, as if connoting a broad consensus that the old development strategy must be abandoned, even if many do not welcome the emerging outlines of its replacement.⁴ Also notable is the dearth of published efforts to delineate a strategy of default, either alone or as part of a debtor's cartel. In one sense, this lacuna merely reflects the Mexican government's firmly stated policy, although readers can perceive great frustration among many analysts on this point. Other topics fashionable only a few years ago that no longer command attention are the search for individual culprits for the massive increase in debt and the purported concomitant corruption as well as discussion of the nationalization of the banks or their current operations. Furthermore, no one is waiting for oil prices to rise again and thereby solve the crisis.⁵

Deficits and Inflation

Let us now turn to more narrowly defined topics of current research that relate to the crisis. Certainly, the technical gem of the thirteen books under review is the volume edited by Alain Ize and Gabriel Vera, *La inflación en México*, which contains empirical studies of the inflation process in Mexico. A variety of different approaches are represented in this collection, including monetarist, neo-Ricardian, and open economy models, multi-equation macroeconometric estimates, causality tests, and price variation studies. Note should also be made of the monograph series "Modelo Macroeconómico" published by the Centro de Investigación y Docencia Económicas (CIDE) as well as José Luis Alberro's fine article in the special edition of *Estudios Económicos* (October 1987), which extends previous work on inflation and relative price variability.⁶ While it cannot be said that anyone has spoken the last word on the causes of inflation,⁷ a high level of analysis has been achieved by a number of schools of economic thought.

One other important contribution of technical economic analysis related to crisis issues is the body of work investigating interest payments and the fiscal deficit, best represented by Inder Ruprah's recent article in *Economía Mexicana*.⁸ It is argued that straightforward use of the government's deficit as an indicator of an expansionary fiscal stance is unwarranted, given the high proportion of outlays on interest payments, both domestic and foreign. Future work might well investigate this issue by separating out exogenous and induced elements of government expenditures and revenue, and their effects on interest rates and prices, then incorporating these insights into the kind of work just discussed. Also much needed is further research along the lines of E. V. K. Fitzgerald's innovative work on the fiscal deficit and crowding

out of consumption, in the reader edited by Rolando Cordera, *Desarrollo y crisis de la economía mexicana*.⁹

One item sorely missing from the literature available in Mexico in mid-1988 was any serious analysis of trends in income distribution over the last decade. This topic might well seem superfluous for a period when real industrial wages dropped by more than half and for which data availability is always problematic, but this issue needs to be quantified. Moreover, it is clear that at least some indicators of the return to capital have also suffered declines, and capacity utilization is quite low. In addition, sectoral redistributions of income may well have been important. Agriculture and industry provide contrasting cases of production trends, although one may wonder how the trends in the public sector's wages and employment will compare with those in the private sector.

Inertial inflation is a topic that is just starting to be discussed in the more academic journals. Readers can be assured that it will command more attention in the near future because of its undeniable importance in hindering orthodox stabilization programs.

The Economic Solidarity Pact

In December 1987, an accord was signed confirming the Pacto de Solidaridad Económica (PASE). This pact is often described by the word *concertación*, or social accord, because it involved agreements among labor, entrepreneurs, and farmers. Government representatives reiterated that the PASE was not a shock plan like the Cruzado and Austral plans, whose recent failures were well known to the Mexican public. The PASE bears more resemblance to an incomes policy, imposed from above and reluctantly accepted from below, while it shares with the shock plans a sense of emergency, particularly in terms of abandoning gradualist economic policies¹⁰ while forcing social cohesion. An impressive if somewhat irrelevant aspect of the accord in economic terms was the decision not to introduce a new monetary unit, a step that had been rumored for some months.

Inflation during 1987 continued to be the most significant weak point in the performance of the previous plan, and it accelerated soon after the crack in the Mexican Bolsa de Valores, itself responding to "Black Monday" on Wall Street in October 1987. The PASE, which was strongly criticized by labor leaders even though they eventually signed it, responded to this inflation by imposing temporary ceilings on price and wage increases, to be followed by a general indexation. The minimum wage was raised, although not sufficiently to counteract recent inflation or the accompanying devaluation of the "controlled" exchange rate. Prices of certain basic commodities were frozen. Backing up the

anti-inflationary goals of the arrangement was the promise of a significant reduction in government expenditures. An unwelcome component was the near doubling of prices of public goods and services like gasoline, electricity, and telephones. The indexation proposal was subsequently dropped.

Shortly after the PASE was approved, Angel Mattiello and Luis Pazos published two readable analyses of the pact and the overall economic situation, written at the level of informed financial journalism. The subtitles of the two books indicate two important considerations: Pazos asks, "¿Otro engaño más?" while Mattiello wants to know, "¿Es una estrategia electoral?" To the authors' credit, neither question is answered dogmatically, although affirmative inclinations can be inferred. As it turned out, the monthly rate of inflation indeed fell significantly up to the time of the election, and the candidate of the ruling party received a majority of the votes, although with the lowest percentage of support in the PRI's history, the highest voter abstention rate, and despite a surprising upsurge of support for the opposition's coalition of leftist parties. Mattiello does not venture an answer for another question in his subtitle, "¿Cómo y cuándo terminará?" His book will be particularly useful as a benchmark description of the situation prevailing shortly before the 1988 election.

Carlos Salinas de Gortari, the PRI's winning presidential candidate, promises strong continuity with the policies of outgoing President de la Madrid, having been an important economics minister in the latter's cabinet. Although few outsiders know what short-term policies are being considered by Salinas, especially for ending the PASE, the broader outlines are expected to repeat those of his predecessor. These policies, which have been derided by critics as "neoliberalism," have included a tight monetary and fiscal stance, the sale of parastatal industries, an increased export orientation, and elimination of discretionary import barriers. Whether the immediate short-run evolution of the country's economic and political situation will permit continuance of this strategy is a major unknown. David Ibarra's recent essay in *Estudios Económicos* describes well the interplay between economics and politics in the search for concertación that the Salinas government will have to face.¹¹

Looking toward the Future

Although the most heated public discussions of crisis policies typically relate to inflation and unemployment, the longer-term factors also demand attention. An especially timely contribution is *El estado empresario en México* by María Amparo Casar and Wilson Peres. This book provides a broad survey of the history, functions, economic per-

formance, and current state of debate on government parastatals in Mexico. The authors clearly have compiled significant experience in researching the subject and have employed a broad set of references and data sources. They consider the pros and cons of privatization fairly, ending up criticizing the current modus operandi as responding more to political-bureaucratic criteria than to strictly economic considerations.

While the book edited by Gustavo del Castillo, *México y el GATT: ventajas y desventajas*, was rendered moot at publication by the government's final decision to join the General Agreement on Tariffs and Trade (GATT), it still provides a useful analysis of the main issues. This study also offers insights into the reasons for the change in attitude since the 1979 decision to stay out and discusses which local sectors might benefit most from entry. Given the presumed importance for the new administration of Mexico's joining the GATT, with its promise of providing an opening for industrial exports as well as an external check on inflation, one can only wish for more research on this subject.

One sector that appears to be suffering increasing indifference in many developing countries struggling with the debt crisis is agriculture. This trend makes José Luis Calva's *Crisis agrícola y alimentaria en México, 1982–1988* particularly welcome. Given the existence of an agricultural crisis in Mexico dating back to the mid-1960s, as well as the government's expressed desire to recover from the policy errors of previous administrations, Calva's book provides a disturbing picture of stagnating production, increased food imports, reduced credit, and low farm prices. He judges the PASE to be particularly unhelpful to agricultural production.

Economic analysis suggests that in times when foreign exchange is scarce, a country will turn from importing goods to producing its own, as might be suggested by slightly twisting the popular Mexican saying quoted in the title of this review, "A falta de pan, tortillas." Clearly, however, this shift toward domestic production has not happened in Mexico, and the gravity of Calva's data and analysis suggest an acceleration of the crisis in agriculture, from the well-known *descampesinización* to a complete ignoring of the sector altogether. An alternative local proverb, "A falta de pan, torta," originated in Spain and recalls a familiar quotation from a French queen who was also facing a crisis, in her case quite unsuccessfully. The alternative offers little assistance in the current Mexican agricultural crisis, but perhaps both versions are preferable to the old gem reported in Francisco de Espinosa's *Refranero, 1527–1547*, "A poco pan, tomar primero."

NOTES

1. See the articles by Trejo Reyes and Silos Alvarado in *El sistema económico mexicano*, edited by Héctor E. González Méndez (Mexico City: La Red de Jonas, 1982); the introduction to the first number of CIDE's *Economía mexicana* (1979); the books under review by Guillén Romo, Valenzuela Feijóo, Huerta González; or virtually any article in the first volume of González Casanova and Aguilar Camín's *México ante la crisis* (Mexico City: Siglo Veintiuno, 1985). The relevant contrast is with books such as Leopoldo Solís's *La realidad económica mexicana* (Mexico City: Siglo Veintiuno, 1970) or the articles by Víctor Urquidi and David Ibarra in *El perfil de México en 1980* (Mexico City: Siglo Veintiuno, 1970); both works were first published in 1970, and both recognize significant problems but no structural crisis. An important landmark was Carlos Bazdresch's paper, "Las causas de la crisis de 1982," presented at the Colegio de México's 1983 Seminario sobre la Economía Mexicana (its proceedings were never published). In discussing the analyses of events leading up to 1982, Bazdresch contrasted a conservative analysis focusing on government deficits, exchange rate overvaluation, and errors in policymaking with a dependency reading emphasizing structural weaknesses of a long-term nature. He proceeds to argue for the correctness of the conservative position while affirming that longer-term problems indeed exist. While other influential economists in the government seldom provide detailed academic presentations of their positions, their frequent use of the term *structural change* in describing current goals, while also recognizing the need to balance the budget, reflects a position parallel to Bazdresch's synthesis.
2. The books under review by Angeles, Rey Romay, Huerta González, Valenzuela Feijóo, and Lechuga Montenegro provide similar recountings of the longer-term evolution of the crisis. For Rey Romay, "El país que perdimos" was the Mexico of Lázaro Cárdenas. An interesting contribution made by Valenzuela's book is its utilization of a series of linear statistical models to illustrate and expand on the historical description.
3. One exception is the article by Leopoldo Solís and Ernesto Zedillo, "Algunas consideraciones sobre la evolución reciente y perspectivas de la deuda externa de México," which appeared in the first issue of El Colegio de México's *Estudios Económicos* (Jan.–June 1986). It follows the familiar methodology of Bela Balassa to conclude that during 1979–1981, the major factors were capital flight, extranormal increases in imports due to investments and other items, and increased interest rates. Alba and Serra appear to agree with this view in *Causas y efectos de la crisis económica*, although they attempt no serious analysis of the question (p. 60).
4. Thus Mexico presents a significant contrast with other countries in the region facing debt-payment problems, where little is heard about the need to change the overall development strategy. One of the key terms used in the Salinas campaign was *modernización*, although little effort was made to provide specific details. For an interesting set of comments on that term by leading Mexican social scientists, see the series of articles in *Nexos*, nos. 124–26.
5. The papers in the volume edited by Nora Lustig, *Panorama y perspectiva de la economía mexicana* (Mexico City: El Colegio de México, 1980), which resulted from a conference held during the oil boom, also reflect this dismay at the economic performance under former development plans. The first two sections of the collection discuss agriculture and industry pointedly from this perspective.
6. See José Luis Alberro, "La dinámica de los precios relativos en un ambiente inflacionaria," *Estudios Económicos*, Oct. 1987:267–304.
7. The major point in Alba and Serra's *Causas y efectos* is that high levels of internally financed deficits have accompanied inflations throughout the postrevolutionary period. This point repeats the message of Antonio Gómez Oliver's *Política monetaria y fiscal de México* (Mexico City: Fondo de Cultura Económica, 1981). Although the causality tests in Ize and Vera's *La inflación en México* do not report uniformly positive support for a strict monetarist position, Alba and Serra prefer to emphasize periods like 1979–1982, when the government deficit as a percentage of the gross domestic product rose by 10 percent.

8. Inder Ruprah, "Déficit fiscal, inflación y crecimiento, 1983–1987," *Economía Mexicana* 8 (1986):31–51.
9. Rolando Cordera, *Desarrollo y crisis de la economía mexicana* (Mexico City: Fondo de Cultura Económica, 1982).
10. On the abandonment of "gradualism," see Banco de México, *The Mexican Economy, 1988* (Mexico City: Banco de México, 1988), p. 6.
11. See David Ibarra, "Política y economía en América Latina: el trasfondo de los programas heterodoxos de estabilización," *Estudios Económicos*, supplement, Oct. 1987.