

# Nodal challenges to economic development in Mexico during the five-year period 2020-2024

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## Abstract

This article examines important development challenges: how to generate enough paying jobs for young people who are looking for work for the first time; gradually absorb the huge backlog of decent jobs; improve the functional distribution of income via a sustained increase in real wages; and how to eradicate extreme poverty while reducing moderate poverty. To overcome these challenges, it is crucial to ensure that the Mexican economy grows at a rate higher than 6% per year. This cannot be achieved with the neoliberal strategy, which has yielded an annual growth of barely 2.3% over the past six six-year periods. Economic growth at rates seen in Asia is feasible using a sound development strategy.

**Keywords:** Mexican economy; economic growth; political economy; employment; income distribution.

## 1. DEFINING NODAL CHALLENGES TO ECONOMIC DEVELOPMENT IN MEXICO

In the 2020-2024 five-year period, 2.2 million youths will turn 18 every year in Mexico. Of these, 1.6 will be seeking paid employment, be it immediately or a few years later after finishing their studies in institutions of higher learning.<sup>1</sup> There will only be 250,000 jobs available from the vacancies created by those who retire or pass on to meet this demand, so there will need to be 1,350,000 new paid positions generated every year.<sup>2</sup>

To achieve this, the Mexican economy must leave behind the neoliberal momentum's annual economic growth of 2.3% seen between 1983-2018, which turned out to be inefficient in generating enough paid jobs for the generations of youths seeking employment. To be precise, during the six-year period of 1983-1988<sup>3</sup>—according to numbers from the Mexican System of National Accounts for Mexico database, 1980 (INEGI,<sup>4</sup> 2019a)—the whole Mexican economy only generated 508,000 paying jobs, or 85,000 jobs per year, due to the almost inexistent economic growth (0.2% annually). Unfortunately, during that six-year term they needed a little under one million new paid job positions for youths seeking employment (not taking into account the vacancies created by workers who passed on or retired), which means 5.3 million available workers were unable to find paid employment.<sup>5</sup> Between 1989-2004—according to the numbers from the Mexican System of National Accounts database 1993 (INEGI, 2019c)—with an annual economic growth of 3.1%, only 8.1 million paying jobs were created, or rather 507,000 jobs per year; yet they needed a little over 1.2 million new positions for youths each year, meaning another 11.2 million youths were unable to find paid employment. Finally, during the period of 2005-2018—according to the Mexican System of National Accounts database 2013 (INEGI, 2019d)—, with an average GDP growth of 2.2% annually, only 6.4 million paid positions were created, or 460,000 per year, in spite of every year there being a need for almost 1.4 million new paid positions for youths. This means that another 11.4 million workers were unable to find employment.

That is why the six six-year terms of neoliberal experimentation which have just passed have left a heavy legacy in the form of a backlog with regards to decent jobs. In fact, in the period between 1983-2018 only 14.7 million formal jobs were created, of these 14.2 million were registered in the Mexican Social Security Institute (IMSS), the Institute for Social Security and Services for State Workers (ISSSTE), the Secretariat of the Navy (SEMAR) and the Secretariat of National Defense (SEDENA).<sup>6</sup> In other words, close to one third of the total formal employment whose creation was needed to satisfy the new generations of youths' demand for decent jobs. On the other hand—according to the National Employment and Occupation Survey by the INEGI, corresponding to the last trimester of 2018— an overinflated contingent of 32 million Mexicans, which represents 56.6% of the workforce, find themselves in informal employment, characterized by its precarious nature, low pay and a lack of health benefits. Furthermore, it has come to be that a huge segment of the population is in hidden employment: 5.7 million workers are not part of the workforce as they “do not seek work because they have no hope of finding it, but declare themselves willing to work” (INEGI, 2019b), in addition to the 2.5 million workers who find themselves in open unemployment: they actively sought work, but were unable to find any.

To make things worse, the precarious nature and hopelessness which accompany hidden employment have come about in spite of the pressure valve in the form of Mexican workers emigrating elsewhere: according to statistics from the National Population Commission (CONAPO)<sup>7</sup>, in the period of 1983-2018 the migratory balance was negative by a total of 10,940,562 people or 303,904 people per year (CONAPO, 2019).

Even with this escape valve, the saturation of the job market led to low wages through the simple effect of the market's “invisible hand”, or rather due to the unfavorable ratio of supply and demand with regards to jobs. To this invisible hand was added the very visible corrupt hand of wage restraint policies, which used salary increase rates as indicators for expected inflation (expectations which were almost always surpassed by the real inflation rates seen), and as a factor in international competitiveness by means of low labor costs. The combined effect was brutal: the average contract salary for government workers suffered a deterioration of 64.1% in the period of 1983-2018; general minimum wages lost 68.8% of their purchasing power;

real wages in the construction industry were reduced by 61.7%; and manufacturing salaries—which had risen in their purchasing power by a very respectable 201.7% in the period when the economic development strategy led by the State was employed (1935-1982)—lost 38.9% of their purchasing power during the six presidential terms of neoliberal experimentation.<sup>8</sup>

As the aggregate salary results, 66.4% of formally paid employees, that is 24,535,112 workers in the last trimester of 2018 (INEGI, 2019d), earned anywhere from below minimum wage to three times the minimum wage (\$7,453.2 MXN per month), which represented for these workers' households a monthly income far below the poverty line, which according to the National Council for the Evaluation of Social Development Policy (CONEVAL<sup>9</sup>, 2019) was \$2,983.02/month per person in an urban setting, or \$11,932.1 for the average family of four. Worse still, the minimum wage itself was below the extreme poverty line, which CONEVAL calls the minimum well-being and is defined as the monthly "monetary value" of "basic foodstuffs", which was \$1,482.2 per person in an urban setting, or \$5,928.8/month per family, while the minimum wage in 2018 was \$2,484.40/month. Granted, this income poverty violates the Mexican Constitution, which according to article 123 states that: "the minimum wage must be sufficient to satisfy the normal needs of a head of household in material, social and cultural regards."

This impoverishment of workers occurred in a causal manner related to the severe deterioration of functional income distribution. Under the economic development strategy led by the State, which preceded that of the neoliberal one, the salaries' share in the national disposable income (NDI), has gone from 26.3% of the NDI in the period of 1951-1958 (Ortiz Mena, 1998), to 35.5% in the period of 1960-1969; and to 41.6% of the NDI during the period of 1970-1982. But this trend toward a better functional income distribution reversed course for the most part under the neoliberal strategy: the part of the NDI made up by salaries dropped to 34.2% in the period of 1983-1989, went up as high as 35.7% in the period of 1990-1999; and dropped again to 33.1% of the NDI in the period of 2000-2009 and down to 31.4% of the NDI in the period of 2010-2018. By brutally cutting of their share of the real wealth generated, paid workers in Mexico experienced an accumulative loss of \$2.127303 trillion USD (at 2015 constant prices) during the 36 years spanning from 1983 to 2018.<sup>10</sup>

Last but not least, the neoliberal economic strategy has also failed to bring with it a better income for the millions of rural families. On the contrary, in the period of 1983-2018, for every ton of grain, corn farmers lost 53.2% of their purchasing power; bean farmers lost 34.1%; soy farmers lost 42.3%, etc., with a knock-on negative effect on their level of well-being.<sup>11</sup>

As a result, the economic neoliberalism has turned out to be an efficient factory for churning out the poor. During the years when the economic development strategy led by the State was in operation (1935-1982), poverty—which in times of Porfirio Diaz affected more than 90% of Mexicans—had been significantly reduced. According to the highest authority on the subject, Julio Boltvinik, the proportion of poor Mexicans went down from 77.5% in 1963 to 48.5% in 1981 (Boltvinik, 1995, p. 49), numbers which largely coincide with those estimated by the National Solidarity Program, according to which the percentage of Mexicans below the poverty line, which in 1960 was 76.9%, dropped to 45% in 1981 (PRONASOL,<sup>12</sup> 1990).

But these achievements in lessening poverty under the economic development strategy led by the State not only came to a stop under the neoliberal economic strategy, but they were largely negated. According to the numbers provided by Boltvinik (1995), poverty income grew from 48.5% of the population in 1981, which in absolute numbers was 33.8 million, to 67.1 million in 1994 and 79 million in 1996 (stemming from the tremendous financial crisis and the real economy of 1995); it went down to 74 million in 2000 and went back up again to 82 million in 2010 and 91 million in 2014 (Boltvinik, 2018, p. 250). In summary, under that neoliberal strategy, the number of Mexicans experiencing income poverty increased by more than 50 million, going from 48.5% of the population in 1981 to 76% of the population in 2014.<sup>13</sup> To top it all off, the insufficient generation of decent jobs in addition to the dramatic fall of real wages and the increase of inequality and poverty brought with them a severe erosion in our nation's social cohesion, with each subsequent manifestation being ever more alarming. There is a causal relationship: a structural foundation for the drop in public safety and the wide spread of crime is the availability of youth prone to be recruited into crime, be it organized or common in nature. In a meticulous investigation, the World Bank found that "in those countries and territories affected by violence [...] these citizens presented some issues related to individual economic well-being (poverty, unemployment) and injustice (in particular inequality and corruption) as primary determinants of conflicts." (World Bank, 2011, p. 9). To be precise, "the primary reasons cited in explaining why youths join bands of criminals are quite similar: unemployment predominates in both cases" (World Bank, 2011, p. 9). From our country's specific cultural, political, and socio-economic perspective, the National Survey on Victimization and Perceived Public Safety 2014 (ENVIPE), carried out by the INEGI, presented similar results: the perception held by the people is that the causes for crime and insecurity are owed to unemployment (41%) and poverty (32.7%), in addition to other causes such as corruption (32.2%) and the disintegration of the family unit (20.8%) (INEGI, 2014). Later ENVIPEs did not include these views. In summary: the six neoliberal six-year presidential terms in Mexico have left a heavy socio-economic legacy.

Facing the future, we shall have to overcome six big developmental challenges; (1) generating enough paid jobs for the new generations of youths which for the first time each year will look for paid work; (2) generating additional jobs in order to gradually absorb the youths which find themselves in hidden employment today; (3) gradually absorb the huge backlog of decent jobs in Mexico; (4) reduce the great inequality of income distribution between production factors by means of a sustained increase of wages' purchasing power; (5) eradicating extreme poverty and significantly reducing moderate poverty; and (6) creating the economic conditions to reestablish social cohesion in Mexico.

## 2. PREREQUISITES FOR SUCCESSFULLY FACING NODAL CHALLENGES TO DEVELOPMENT IN MEXICO

Without an economic growth surpassing a 6% annual rate, Mexico cannot create enough decent jobs for new job seekers and successfully face the rest of the nodal challenges to development we have discussed so far. Will this be achieved during the five-year period of 2020-2024? The question remains

unanswered so far as the neoliberal strategy is being maintained without any fundamental changes. As Albert Einstein warned, "the definition of insanity is doing the same thing over and over again and expecting different results."

That's why we must remember: the neoliberal economic strategy employed in Mexico, beginning with the government of Miguel de la Madrid Hurtado adhered to the classic do's and don'ts of economic policies prescribed to developed countries by the International Monetary Fund and the World Bank during the 1980s, which John Williamson encapsulated later on under the name of the Washington Consensus. These commandments included opening up foreign trade, foreign investments and the financial system; steering the economy towards foreign markets; the privatization of state-owned companies for the sake of privatization (in other words, without even adopting, in the name of public interest, precautionary measures and a regulatory framework to ensure better performance of the companies and of the respective markets); the deregulation of economic activities; strict fiscal discipline (i.e. a balance between public spending/income at any cost, cancelling out the active role of fiscal policy in regulating the economic cycle); eradicating the prior fiscal instabilities, but not by means of greater taxation but rather by reducing public spending and investments (which brings with it the suppression or reduction of programs fostering sectorial and general economic growth); a fiscal system with low marginal tax rates for higher tax brackets (which was expressed as a reduction in maximum income tax rates); an adequate legislative and institutional framework for protecting property rights (which was reflected in law reforms regarding agriculture, foreign investment, intellectual property, etc.).

The speed with which the Mexican neoliberal technocracy applied these decrees left John Williamson himself amazed, finding in Mexico between 1988 and early 1989: a strong "primary fiscal surplus"; "extreme" fiscal tax austerity; low maximum income tax rates; an economy with a strong foreign focus; an accelerated aperture of the economy; "impressive liberalization" of foreign investments; of interest rates; privatization of state-owned companies; and deregulation of economic activities (Williamson, 1991).

To the classic decrees of the Washington Consensus they added the orthodoxy of monetary policy, restricting its function to the stability of prices and rejecting the monetary policy's heterodox function of sustained growth of the GDP and employment. Put into effect since the presidency of Manuel de Miguel Hurtado, the monetary orthodoxy was tied up in 1993 with the reformation of the law of the Bank of Mexico, assigning to it as a macroeconomic mandate solitary control over inflation, *contrario sensu* to the dual mandates had by central banks in the United States and Canada: control over inflation but also over GDP and employment growth. The neoliberal technocracy ensures that this bundle of economic policies would lead the country to a golden age with greater rates of economic growth, employment, and well-being.

Nevertheless, after six six-year terms employing this neoliberal economic strategy, the golden age turned out to be nothing but a utopia: during the period of 1983-2018, the GDP per capita barely grew with an average rate of 0.7% annually, with an accumulated growth of 30.5% over 36 years; meanwhile, during the employment of the development strategy led by the State (1935-1982), the GDP per capita grew at an average rate of 3.2% per year with an accumulated per capita growth of 348% over 48 years (see Table 1).

Table 1. Macroeconomic indicators per each presidential six-year term

Presidential Term	Gross Domestic Product		Gross Domestic Product/Capita	
	Term Growth (%)	AAGR* (%)	Term Growth (%)	AAGR* (%)
<i>Development strategy led by the State</i>				
1935-1940	30.10	4.48	14.28	2.25
1941-1946	42.90	6.13	25.74	3.89
1947-1952	39.86	5.75	19.91	3.07
1953-1958	44.85	6.37	20.54	3.16
1959-1964	47.51	6.69	20.88	3.21
1965-1970	48.75	6.84	22.68	3.47
1971-1976	43.12	6.16	19.39	3.00
1977-1982	43.11	6.16	21.84	3.35
Accumulated variation				
1935-1982 (%)	1 592.71	6.07	347.99	3.17
<i>Neoliberal economic strategy</i>				
1983-1988	1.09	0.18	-11.82	-2.08
1989-1994	25.81	3.90	12.08	1.92
1995-2000	23.45	3.40	13.00	2.06
2001- 2006	13.29	2.10	4.74	0.77
2007-2012	13.39	2.12	4.83	0.79
2013-2018	13.98	2.21	7.52	1.22
Accumulated variation				
1983-2018 (%)	127.53	2.31	30.48	0.74

Note: \* AAGR = Average Annual Growth Rate.

Source: created by the author. For the GDP, using the bank of Mexico, economic indicators, the historical archives at INEGI (2019a, 2019c and 2019d) with the collections of 1989, 2001, 2006 and 2016. For population, CONAPO (2019).

Naturally, the poor performance of the Mexican economy in the period of 1983-2018 did not just come out of the blue: it was the unavoidable result of the neoliberal strategy. On the one hand, structural reforms, which stuck to the terms of the Washington Consensus (the abrupt and indiscriminate unilateral opening of the market, combined with the shrinkage of active policies fostering sectorial and general economic growth, and the liberalization of foreign investment and the financial system), to which was added the almost chronic overvaluation of the peso, resulted in the loss of complete links of production chains, destroyed by the vertiginous growth of imported components; *eo ipso*, they created a growing separation between the domestic market and export sector which, far from creating a drag effect on the Mexican workforce, transmitted its multiplier effects onto production, investment and employment outside of the country, tending to turn it into a quasi-maquiladora industry (or, in other words, an enclave economy); as well as widening the technological and productivity gap between the different sectors and branches of the Mexican economy, bringing about the generation of jobs in the formal sector and a growth of precarious employment in the informal (low-tech and productive) sector of the economy, as well as a widening of the inequalities in regional development and the functional distribution of income with a dramatic spread of poverty.

On the other hand, the neoliberal macroeconomic orthodoxy which built up control of inflation and meeting the goal of fiscal balance as objectives to be achieved at any cost, has mangled beyond recognition the countercyclical role of fiscal and monetary policies (i.e. increasing public spending and reducing the price of credit to stimulate economic activity when it falls into recession, or heads in that direction), bringing with it repeated cycles of starts and stops for the Mexican economy. At the same time the use of currency exchange policies as an anti-inflation tool brought with it the heavy burden of a chronic overvaluation of the Mexican peso, with adverse effects on the competitiveness of domestic producers when faced by foreign competition, both in the domestic (when competing against imports) and foreign markets.

The abstract reason for the neoliberal failure can be summarized as such: economic realities (in general) and those of foreign trade (specifically) do not adjust themselves to the neoliberal theoretical model. The imperfections of the markets, growing performance at scale, the institutional factors which condition the development and spread of knowledge and technology, as well as synergies of the development of specific productive sectors —a phenomenon which has been rigorously analyzed by economic research, justifying governmental intervention (List, [1841] 1979; Schumpeter, [1911]

1997; Wade, 1999; Reinert, 2007; Chang, 2004; Rodrik, 2011)— are beyond the neoliberal vision. As Paul Krugman (1986, p. 21) pointed out over three decades ago: "the idealized theoretical model in which the classical case for free trade is based will not serve us anymore. The world is more complex than that, and there is no question that the complexities do open, in principle, the possibility of successful activist trade or industrial policy." As if that was not enough, the crucial importance of active macroeconomic policies (monetary, fiscal, and foreign exchange) in inducing strong and sustained growth of domestic product and employment, are also outside the neoliberal scope. As such, the slow growth of the Mexican economy during the period of 1983-2018 is not something extrinsic to the neoliberal economic strategy, but rather an intrinsic result.

As a result, Mexico will not achieve economic growth greater than 6% annually if it does not put an end to the neoliberal strategy. For this reason, it is disconcerting that—at least so far—the new administration is keeping the neoliberal strategy without any fundamental changes: liberalizing foreign trade, foreign investment and the financial system; extreme fiscal austerity; low income tax rates for higher tax brackets; macroeconomic orthodoxy which favors control of inflation and fiscal balance over the growth of GDP and employment; an economy with a foreign focus; the deregulations and privatizations previously carried out are also being kept as well as the neoliberal legislative framework which it inherited. The changes in style and special projects seen in 2019 do not fundamentally veer from neoliberalism.

As a result, 2019 will be another year lost in terms of development: the GDP per capita will close with a drop of 0.9% with respect to 2018. Furthermore, at the moment of finishing this text, public spending on health has dropped 9.7% during the period between January to August of 2019 when compared to the same period the previous year; public spending on education fell by 9%; and spending on science and technology was reduced by 16.3%; public spending on communication and transport infrastructures was reduced by 32.5%, etc. This is not development. Einstein was right: things will not change if we continue to apply the neoliberal strategy.

### 3. TOWARDS A NEW STRATEGY OF ECONOMIC DEVELOPMENT: FUNDAMENTAL PRINCIPLES AND TOOLS

An economic growth of 6% per year or greater—which is needed to face the nodal challenges to economic development in Mexico—is feasible, given that it corresponds to the potential which the Mexican economy structurally has under the correct development strategy. In fact, an economic growth of this scale was seen during the period when the development economic strategy led by the State was employed, which was active—with left-wing and right-wing variations within the limits of the strategy— since the government of Lázaro Cárdenas (1934-1940) until 1982. The fundamental tools for economic policy were the following: first of all, general development policies which included developing human resources through a system of public educational and health institutions; the government's accelerated construction of infrastructure; the creation of a functional financing system for development by means of creating a system of development banks and developmental regulation of the commercial banking system (regulation of interest rates, monetary reserves deposited by commercial and central banks in the government regulated and mandated preferential credit allocations);<sup>14</sup> the development of a national energy sector by means of large oil (PEMEX) and electrical (CFE) state-owned companies; and, of course, the creation of a legislative and institutional framework for regulating the healthy functioning of the markets.

Second, economic sectorial development policies are needed to bolster the development of productive sectors and branches considered preferential, by means of bundles of promotional tools for the manufacturing industry which included: nationalist regulation of foreign trade, bestowing preferential credits to priority activities (through national development banking, or commercial banking by means of credits with preferential interest rates set by the Bank of Mexico); subsidies and stimuli for new and necessary industries; tax exemptions for export industries and eligible investments; a government purchasing system which favored the Mexican industry; government–businessmen venture capital partnerships in specific industrial projects; direct investments by the State in strategic industries (petrochemical, fertilizers, steel, etc.); in addition to farming policies based on an agrarian reform which transferred about half of the best farmlands in the country to farmers and deployed multiple tools specifically for developing the sector: large public investments in irrigation infrastructures, research, and transfer of technology; a system of minimum price guarantees, preferential credit and agricultural insurance.

Third, policies regulating direct foreign investment are needed in order to give priority to national interests, orienting it to branches which were not explicitly reserved for national assets and to sectors to which they only had access in partnership with domestic assets, as well as to induce the transfer of technology to domestic businesses.

Fourth, active macroeconomic policies, monetary, fiscal and foreign-exchange, which were prudently managed (with the exception of the 1970s and the early 1980s, when they lost restraint with regards to fiscal and foreign exchange policies as we shall soon see). The economic and social ideology of the Mexican Revolution, put forth in the *Social Contract*<sup>15</sup> of 1917 and consolidated under the government of Lázaro Cárdenas, had designated these functions to the state, discarding the liberal ideology of *laissez-faire*, and *laissez-passer* (Vernon, 1967; Solís, 1970; Hansen, 1971; Wilkie, 1978; Ortiz Mena, 1998; Cárdenas, 1996; Villareal, 1988; Reyes Osorio, 1974; Romero Sotelo, 2019).

Under the development strategy led by the State, the Mexican GDP grew 15.9-fold (1592.7%) in the period of 1935-1982, growing at an annual average rate of 6.1% (see Table 1). It was not a case of an "economic miracle", but rather a consciously constructed development. In fact, international economic history shows that the countries with a greater industrial tradition—such as England and later on the United States or Germany, among others— based their development strategies on commercial and industrial policies of innovation; on strong investments in infrastructure, education and health; on functional financial systems for industrialization and development; and on macroeconomic policies (monetary, fiscal and foreign-exchange), which actively foster sustained economic growth (List, [1841], 1979; Chang, 2004; Reinert, 2007; among others). Newly Industrialized Countries, such as South Korea and Taiwan, did the same; and more recently we can see emerging economies with spectacular development, such as China, doing so as well (Wade, 1999; González, 2001; Stiglitz, 2002; Vogel, 2011, and Rodrick, 2011).

A little over a decade ago, upon concluding a much-needed investigation on the economies which after 1950 succeeded in drawing annual rates of 70% or greater for 25 years or more, in a manner that they multiplied the GDP by a bit more than five every 25 years, the Commission on Growth and Development, sponsored by the Hewlett Foundation, various European governments and the World Bank, and made up of 22 experts, including two Nobel laureates for economics (Michael Spence and Robert Solow), stated: "Governments in the high-growth economies were not free-market purists. They tried a variety of policies to help diversify exports or sustain competitiveness. These included industrial policies to promote investment in new sectors, and managed exchange rates, shepherded by selected capital controls and reserve accumulation" (Commission on Growth and Development, 2008, p. 7). Furthermore, "no country has sustained rapid growth without also keeping up impressive rates of public investment—in infrastructure, education and health," which "paves the way for new industries to emerge and raises the return to any private venture" which benefits "from healthy, educated workers, passable roads, and reliable electricity." (Commission on Growth and Development, 2008, pp. 5-6).

That is why successfully facing the challenge of raising the interest rate above 6% per year, Mexico needs to change to a version 2.0—or a corrected and augmented version—of the historical economic development strategy led by the State. Basically, what needs to be augmented are the objectives and the tools lacking for the industrialization strategy; and what needs to be corrected are the macroeconomic policies which resulted in the debt crisis of 1982.

First off, an industrialization strategy led by the State, focused on import substitution, did not sufficiently foster the export of manufactured goods—as the primarily industrialized countries did (UK, later on the US, etc., and even later on Japan), as well as the newly industrialized countries of East Asia (Korea, Taiwan, etc.) and on a gigantic scale as China is currently doing—with the goal of *promoting an endogenous financing of industrialization*, by means of a stable trade balance or a surplus in manufacturing. Furthermore, Mexican industrialism suffered from insufficient promotion of domestic capital goods production by means of more aggressive programs which foster their own technological development and learning, as well as the creation of domestic production chains, unlike the US, Germany, and later on Japan and the newly industrialized countries' economies (NICs) and currently China, which early on fostered the industries of capital goods, including high-tech industries as well as their *clusters* (industrial conglomerates), in a way that both strategic weaknesses generated a chronic foreign exchange gap in the manufacturing sector's foreign trade.

While macroeconomic policies (monetary, foreign-exchange and fiscal) were managed with restraint, thereby ensuring the sustainability of economic growth—something which started in the Cardenas presidency (1934-1940) and lasted until the period of stabilizing development (1958-1970)—the instabilities in the trade balance of manufactured goods was kept under control, compensated in great part by farming exports. But in the 1970s and the beginnings of the 1980s, the imprudent management of macroeconomic policies aggravated the foreign exchange gap of manufacturing goods.

On the one hand, Echevarria's and López Portillo's strong peso policy—the so called "populist exchange policy"—led to the almost chronic overvaluation of the Mexican currency. In the period of 1971-1975, the dollar-peso parity was kept at \$12.5 MXN, in spite of Mexican inflation reaching 12.1% annually versus 6.8% per year in the United States for the same period. Consequently, there was an increase in imports at a rate greater than that of exports, creating an enormous current account deficit, which reached 4.9% of the GDP in 1975 and obligated the macro-devaluation of 1976, with which the current account deficit was reduced to 1.9% of GDP in 1977. Nevertheless, during the government of José Lopez Portillo, with the mentality of "a president who devalues the currency devalues himself", there came about another strong overvaluation (the dollar-peso parity went from \$22.58 MXN in 1977 to only \$24.51 MXN in 1981, in spite of the accumulated inflation in this period being 198.6% in Mexico versus 59.6% in the United States), causing anew—in spite of enormous oil-based income—a growing current account deficit (up to 6.5% of GDP in 1981), which increased the addiction to foreign savings and led to the debt crisis of 1982 (see Calva, 2000).

On the one hand, the imprudent management of revenue services—seen during the last part of the development strategy led by the State (1931-1982)—led to a growing gap in public spending and income. The increased spending included a significant increase of investments in human resources (education, health, etc.), as well as a strong growth of the physical investment in the public sector (in the construction of oil platforms; expanding the installed capacity of electrical, petrochemical, steelwork, and metallurgical industries, as well as highways, irrigation works, industrial parks, among others), said expansion was not well-financed by greater taxation which would have been achieved by applying the proposed fiscal reform elaborated in 1961 by a group of renowned Mexican economists, or that elaborated by the brilliant British economist Nicholas Kaldor (hired with that aim in mind by the Secretariat of Finance and Public Credit that same year), which would have allowed an increase in taxation at the three levels of government (including contributions to public healthcare), of 10.3% of the GDP in 1960, to 17.1% of the GDP in 1970, according to the proposal by the Mexican economists, or rather 24.3% of the GDP according to the proposal by Kaldor (Urquidi, 2011; Izquierdo, 1995; Ortiz Mena, 1998 and Unda Gutiérrez, 2018).

Worst still, the *enormous operational tax deficits*—which discount the inflationary component of the public debt service—shot up to 3.8% of GDP on average per year in the six-year term of 1971-1976, to 4.8% of GDP in the six-year term of 1977-1982, and were primarily financed with foreign debt, so that this *imprudent management of public finances*, combined with the overvalued foreign exchange, led the country to the financial collapse of 1982, which ended up being the final nail in the coffin for the development model led by the State by bringing about the neoliberal technocratic group's rise to power.

Once the debt crisis broke out, the ideal solution consisted of bluntly rectifying the errors in macroeconomic management and rebuilding the national economy by turning to — by putting off payment—a legitimate renegotiation of foreign debt, which would enforce the co-responsibility of the accrediting banks and the international financial organisms in the debt crisis;<sup>16</sup> which in addition to bringing about in parallel a postponed progressive fiscal reform to increase taxation by 10 percentage points of the GDP; and clearly redefining the industrialization strategy (from the traditional import substitution to broader goals which would include a greater fostering of exports in order to achieve a stable manufacturing trade balance or surplus, as well as a more resolute fostering of capital goods industries and establishing their internal production chains). They should have kept the economic development

strategy led by the State, but with prudent macroeconomic management, similar to that observed in the time of Cardenas on through to the period of stabilizing development.

But the neoliberal technocracy which came to power, with the presidency of de la Madrid, cast aside this alternative solution as it had its own project: taking advantage of the circumstances provided by the debt crisis in order to make an about-face from the development strategy led by the State to a neoliberal economic strategy based on the dogmas of market fundamentalism by Mises, Hayek and Friedman (Romero Sotelo, 2019). The results are clear for everyone to see.

That is why, to paraphrase the poet Octavio Paz, we must take up the loose ends of our history: moving on to a more modern version 2.0 of the national development strategy led by the State. For lack of space we will not name the fundamental instruments of economic policies for this new strategy: an executive summary can be found in the Manifiesto ¡Reconstruyamos nuestra nación! (Consejo Nacional de Universitarios, 2018)<sup>17</sup> ; and a more extensive version can be found in the collection of 20 books *México: 2018-2024 Nueva estrategia de desarrollo*<sup>18</sup> (Calvas, (coord.) 2018 and 2019).

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<sup>1</sup> The rest of the youths will opt to dedicate themselves to the home and other activities not included in the workforce.

<sup>2</sup> Calculations created by the author based on historical series and projections of youths which each year turn 18 (CONAPO, 2019); the author's own projection of youths' participation rates in the workforce for youths between 20 and 29 years of age (INEGI, 2019b); e *idem* in the potential workforce (which includes youths in hidden unemployment: they are not seeking work, but "declared themselves willing to work" (INEGI, 2019b). For vacancies due to retirement and death: projection based on the death rate of the population of a working age, and an estimation of age-based retirement rates based on, INEGI, 1993; CONAPO, 2019; INEGI, 2019a.

<sup>3</sup> TL note: In Mexico the standard presidential term is six years in length unless cut short.

<sup>4</sup> TL note: National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*)

<sup>5</sup> The author's estimation based on the sources in the previous footnote, except for the numbers which come from the Mexican System of National Accounts. The same is true for the following numbers in this paragraph.

<sup>6</sup> Calculations carried out by the author based on, INEGI (2015) and López Obrador (2019).

<sup>7</sup> TL note: from the Spanish *Consejo Nacional de Población*.

<sup>8</sup> Calculations by the author based on: for salaries, Bortz (1986); Salinas de Gortari (1994); Zedillo Ponce De Leon (1997); Calderón Hinojosa (2012); López Obrador (2019); and STPS (2019). For the deflator, the price index for basic foodstuffs INEGI (2015) and INEGI (2019a, 2019c and 2019d).

<sup>9</sup> TL note: from the Spanish *Consejo Nacional de Evaluación de la Política de Desarrollo Social*

<sup>10</sup> Elaborated by the author based on: for the NDI, the wages of paid workers and the GDP deflator for the period of 1980-1987, INEGI (2019a); for 1988-2001, INEGI (2019c); and for 2004-2017, GDP by INEGI (2019d). For the exchange rate, Banco de Mexico (BANXICO) (2019); and for the deflator of the dollar, IMF (2019).

<sup>11</sup> Calculations carried out by the author based on SAGARPA (2019a and 2019b) for average rural prices; for the equivalent subsidy for every ton of grain bestowed by PROCAMPO, later to be called PROAGRO, the calculations were carried out based on the support quotas reported by PROCAMPO and PROAGRO (López Obrador, 2019); and the average performance per hectare reported by SAGARPA (2019b). For the deflator, the national consumer price index, INEGI (2019e).

<sup>12</sup> TL note: from the Spanish *Programa Nacional de Solidaridad*.

<sup>13</sup> Starting in 2016, the INEGI radically changed the methodology of the National Household Income and Expenditure Survey (ENIGH), so that the results are not only not comparable with those carried out between 1992-2014, but that they are in and of themselves questionable (see Boltvinik, 2018 pp. 252-262).

<sup>14</sup> TL note: Mexico previously had the "Sistema de cajones selectivos de crédito", a system according to which banking institutions were obliged to keep a certain proportion of their loan portfolio assigned to certain sectors which were considered a "priority" and for which all rates were determined by the authorities, being frozen for long periods of time.

<sup>15</sup> TL note: *Contrato Social* in the original Spanish.

<sup>16</sup> There are the historic presidents —albeit distant— of extending the foreign debt provoked by the Mexican Revolution which was kept at bay —by resisting strong pressure from foreign creditors— by the president Pascual Ortiz Rubio in the early 1930s, and continued into the presidency of Lázaro Cárdenas, until the debt was renegotiated by President Manuel Ávila Camacho with the fabulous condonement of four fifths of the nominal value, thereby allowing Mexico's economic development (Meyer, 1988). A more recent precedent is that of Argentina, which in August 2001 fell into a foreign debt crisis more serious than that which occurred in Mexico in August 1982: the year after the crisis, the Argentinian foreign debt represented 152.7% of GDP in 2002; while the Mexican foreign debt represented 49.2% of GDP in 1983. But Argentina rose from the ashes as if by magic: in the period of 2003-2011, the GDP grew at a real rate averaging 6.3% per year (measured in USD at constant prices corrected for purchasing power parity: PPP). The key lay in the sovereign strategy of Néstor Kirchner of rebuilding and development as he took on the country's presidency in May 2003. It started with two sovereign decisions: the first was saving the country first and then tending to foreign debt, after renegotiating enormous condonements of the debt capital, thereby enforcing the co-responsibility of the creditors in the debt crisis. The second sovereign decision was to put into play a heterodox strategy (anti-neoliberal) of economic reactivation and growth (Calva, 2018). Meanwhile, the stance of the Mexican government was to pay the creditors at the cost of sinking the real economy and the hunger of millions of Mexicans, and submitting to severe programs of macroeconomic adjustments and "structural reforms" prescribed by international financial organisms (see Calva, 1988).

<sup>17</sup> TL note: Manifest! Let's Rebuild Our Nation! (National Council of University Students, 2018)

<sup>18</sup> TL note: *Mexico: 2018-2024. New Development Strategy*