Crisis in Mexico: unlearned lessons

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1 .- The economic crisis is ours

- The crisis we face is mainly a result of the stability macroeconomic policies, trade and financial liberalization and structural reforms.
- The crisis represents the failure to have favored the free market mechanism, and the reduction state involvement in the regulation and economic activity.
- Such policies are against the conditions of endogenous growth. Since highly depend on exports and capital inflow.

2 .- External factors support Macroeconomic 'stability', and globalization.

- Trade and financial policies, as well as macroeconomic 'stability', with central bank independence, exchange rate stability, and fiscal discipline not sustained on endogenous factors, but on external variables (exports, remittances and capital inflows).

Mexico: Capital Inflows, 2003-2007

(Millions of Dolars)

	Total	Oil Exports	Foreign Direct investment	Portfolio investment	Remittances
2003	52,332	18,602	16,522	3,558	13,650
2004	69,316	23,667	23,681	5,238	16,730
2005	82,517	31,891	21,977	8,365	20,284
2006	83,488	39,022	19,428	1,296	23,742
2007	109,303	43,018	27,528	14,777	23,979

Source: INEGI, Banxico

3 .- Mexico does not have sovereignty in the management of economic policy. We depend on capital inflows.

- The Mexican government lost sovereignty management of its economic policy, as it is required to work independently of the central bank, fiscal discipline and stable exchange rate.
- Such policies have worked against the growth of internal demand, competitiveness and the dynamic accumulation of domestic production.
- With the objective of exchange rate stability, the government is no longer a sovereign state. It has no control over its monetary and fiscal policy.

4 .- The external factors have not operated in favor of 'stability‘ policies. It precipitated and deepened the economic crisis.

- The crisis in international financial markets and the U.S. economy rapidly disrupted the Mexican economy.

  The Mexican economy crisis has been deeper than others Latin American countries. We do not have productive and domestic financial conditions to meet external shocks, we have lost sovereign management of economic policy to implement counter-cyclical policies to boost the domestic market and offset declining exports, remittances and foreign investment

5 .- Despite the crisis, dominant economic policy have not change.

- The government assumes that the crisis comes from outside, keeping the same economic policy for the financial sector (favoring external capital inflows).
- The government maintains the same stability policies that caused the crisis.
- This policy framework favors financial markets gains, and is against the industrial and agricultural sector and employment generation.

6 .- Anti-cyclical policies are not sufficient to fight the crisis.

- Economic problems are not resolved with counter-cyclical economic policies. It is not enough to reduce interest rate, expand liquidity, or rise public spending,
- The crisis is a result of lower accumulation of the productive sector.
- The US expansionary monetary, fiscal and exchange rate policies have not overcome the crisis. In spite of the current interest rate is between 0 and 0.25%, and deficit spending in 2009 equivalent to 13% of GDP, stable economic growth hasnot been riched.

7 .- The Mexican government hopes the U.S. will overcome soon the crisis.

- The mexican economy depends on the U.S. economy.
- The problem of the mexican export to the US is the high-import-coefficient. It has not induced mexican domestic production.
- Under these conditions Mexico has not possibilities to grow.

8 .- Mexico does not have counter-cyclical policies to restore growth.

- None economic sectors of the Mexican economy acts as an engine of growth.
- The private sector saves to pay debt, investment and consumption declines
- The fiscal, monetary, and exchange rate policies remain stable.
- The continuance of government policy without sovereign management of monetary, fiscal and exchange rate policies, without revising the trade and financial liberalization policies, the crisis will turn deeper.

9. - The spite of export and demand fall, the fiscal discipline is maintained

- Fiscal discipline appreciates the mexican currency, competitiveness declines, production falls, businesses and households income fall, worsening insolvency. Credit goes down, and the trade balance is under strong pressure, despite economic activity contration.

10 .- Higher taxes and public goods prices are counterproductive

- The government tries to avoid falling into strong fiscal deficit by increasing taxes, and public goods and service prices. This reduces spending and public services, and also promotes privatization.
- The increase in taxes, prices and tariffs for goods and services of public sector, pressure up-prices, interest rate, public debt and public finances.

11.- Structural reforms are not the answer to the crisis

- The lack of government flexibility in economic policy to fight the crisis has let structural reforms to attract capital inflows and induce economic growth. and make globalization viable.
- Structural reforms will lead to a further domestic market contraction.
- More market deregulation, more privatization and denationalization will deepen the crisis.

12.- The globalization is not viable.

- External factors unable to maintain policies of free movement of goods and capital, central bank independence, exchange rate stability and fiscal discipline.
- There are not endogenous conditions to pursuit that policies, because they require increased capital inflow.

Mexico: External Capital Inflows, 2008-2009

(Millions of dollars)

	Total	Oil exports	Foreign Direct investment	Portfolio investment	Remittances
2008	101,027	50,656	22,481	2,746	25,144
2009	72,271	30,883	12,522	7,685	21,181

Source: INEGI, Banxico

13 .- Mexico can not continue with policies favoring financial capital

- Free capital mobility poilicies, high interest rates, exchange rate stability and fiscal discipline, favor the financial sector.
- No one can remain confident that free market policies will allocate resources for economic growth and employment.
- The financial sector should be regulated to prevent speculative practices that destabilize financial markets. Also is needed credit availability to promote productive sector and employment generation. Consumption of imported goods need to be discourage, and stock market operations need to be limited.

14 .- Sovereign management of economic policy needs to be regain to induce economic growth

- In the context of falling exports and capital inflows, and declining investment and consumption, the government needs to promote economic growth.
- The central bank should be dependent on government finance meet, impose flexible exchange rate, and impose flexible monetary and fiscal policy to boost domestic market.
- The government deficit spending by itself does not guarantee an increase in the income of companies and households. The government spending must operates with internal multiplier effect.

15 .- Internal multiplier effect supports public and private finance .

- In a context of economic growth the income of companies and households outweighs the debt cost.
- If there is no higher income expectations banks will not expand credits.
- Growth and employment policies will restore credit availability.
- Economic growth and higher income will increase tax revenues and reduce fiscal deficit.

16.- The problem is political (forces correlation.

- Overcoming the crisis needs to rethink the prevailing free-market policy. It is not accepted by economic policy makers since it subverts the interests of big capital.
- The government, the Congress and political parties, are not aware of the magnitude of the crisis we face.