

## RECENT WRITING ON THE MEXICAN ECONOMY\*

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In a significant survey article published in the *American Economic Review* ten years ago, Leopoldo Solís could regret, not without justification, the lack of a serious tradition of empirical economics research in Mexico.<sup>1</sup> There was no lack of well-trained and creative applied economists; but they were often engaged, then as now, in political action or public administration. Meanwhile, academic economists were engaged in the transmission of received theory (usually foreign) without reference to the *realidad nacional* or else in vague generalizations. However, the recent bibliographical survey by the Colegio de México,<sup>2</sup> as well as the publications discussed in this review, indicate that the 1970s saw a flourishing of empirical and quantitative work among the two main groups identified by Solís: the neoclassical and monetarist economists on the one hand and the structuralists and radicals on the other. Moreover, there has emerged an increasing differentiation within these groups, spreading the scope of the debate outwards from the center, reflecting the polarization of political attitudes in Mexican society as a whole. Further, as the economists gained positions of power previously reserved for professional politicians, both structuralists such as Tello and neoclassicals such as Solís himself were in a position to translate at least some of their ideas into practice. However, although Solís had suggested that the intellectual advance would be made by economists of the neoclassical persuasion, in the event it was the monetarists and radical writers who appear to have been most fertile in the 1970s.

The high degree of "relative autonomy" enjoyed by the Mexican state,<sup>3</sup> particularly since the revolution, has meant that the role of the bureaucratic elite has traditionally been crucial in determining the course of economic development as a whole. As this group does not participate directly in the economic process itself—although it is clearly concerned with the continuance of capitalist development in some form—it is par-

\*In this brief review article the vast range of recent writing on the Mexican economy cannot, of course, be covered; the topic under discussion is narrowed, therefore, to the leading issues of macroeconomics, thereby excluding sectoral themes. I am indebted to Rolando Cordera, Pepe Ayala, Jaime Ros, Eduardo Jacobs, and Rosalía Cortés for stimulating discussions on this topic.

ticularly influenced by the realm of ideas and especially by those on economic development.<sup>4</sup> This is clearly so in the current debate about the allocation of oil resources: the Industrial Plan,<sup>5</sup> for instance, is not only the definite statement of how the Mexican state intends to apply the oil revenues, but also a reflection of Mexican economic thought. There is a clear commitment to the building up of heavy industrial capacity and to the need for state intervention, while the introductory chapter of the Plan contains an explicitly structuralist interpretation of the difficulties faced by Mexican industry. Thus, despite the conservatism of the López Portillo administration in demand management, the traditional commitments of the Mexican state are reaffirmed and tacit tribute paid to the progressive economists of the 1960s and 1970s. In particular, the influence of skewed income distribution on market size, the control of foreign firms over the transfer of technology, and the stultifying effect of ownership concentration are all pointed out, while the need for industrial planning and a true capital goods industry is stressed. This analysis, in combination with the application of an input-output model and the provision of specific sectoral forecasts, makes the Plan a document of more than merely political importance, representing as it does the translation of structuralist critique of the Mexican economy into a concrete and technically sophisticated government programme, where state-led and oil-financed national industrial development provides the means for the elimination of poverty.

However, both this approach and the critiques of it are in effect referring to a debate about the *past*, particularly the interpretation to be placed upon the 1955–70 period of *desarrollo estabilizador* and the 1971–76 period of *desarrollo compartido*. The structuralist school, of which Tello's book<sup>6</sup> is a recent example, suggests that the rapid industrial growth of the postwar years, far from being "stable development," led to greater foreign penetration of the economy—worsening income distribution and sectoral imbalance. These factors not only exacerbated social tensions but also led to a stagnation in the growth process. Tello then sees the 1970–76 years as an attempt to get the economy out of this impasse by further state intervention in heavy industry, wage support, and agrarian reform. In this the Echevarría government is held to have been frustrated by the world crisis of the 1970s and by the opposition of the banking system both from without and within the state itself: "Critics forget that the deficiencies in economic policy were not in that which was implemented but rather in what was not: the restructuring of the financial, monetary and credit system so that it ceases to be the determinant factor in national economic development."<sup>7</sup> The book is important not only because it is the record of an undersecretary of the treasury under Echevarría and minister of planning under López Portillo, but because it begins to bring into the structuralist critique of the Mexican

economy a sense of the dynamics of growth (rather than the comparative statics of supply and demand) on the one hand, and a real sense of the socioeconomic forces limiting state interventions on the other.

The structuralist approach to the Mexican economy has developed in its analysis of the demand side of the economy as well as on supply. In particular, the employment problem (in Tello and SPFI) is seen as centrally determined by the low demand for labor generated by an industry based on foreign technology, while the skewed income distribution produces a demand for "luxury" products based on this technology. Underemployment is seen as a more critical problem than inflation, therefore. The attention to the composition of demand and the influence of industrial ownership means that this approach can be said to have made the transition from a "Keynesian" to a "Kaleckian" view of the world. This is strengthened by the recent detailed empirical attention to the process of price formation through "markups" on wages and imports by the CIDE group.<sup>8</sup> This view was introduced to Mexican economics by Horacio Flores de la Peña (who had studied under Kalecki) but only in recent years has it borne empirical fruit.<sup>9</sup>

On the left of the structuralist school there has emerged a fertile "Marxian"<sup>10</sup> group, which would introduce the problems of the social nature of capital accumulation explicitly in the analysis. Although the collection in *México, hoy*<sup>11</sup> is concerned with far broader contemporary issues than the merely economic, covering as it does topics such as labor organization, the mass media, and education to form the explicitly socialist view of the Mexican problematic, there is a central commitment to the idea of state intervention as the route to radical reform. The essay that deals with the economy is an excellent exposition of this radical reformist view, putting forward a reasoned and empirically detailed critique of *desarrollo estabilizador* as being in reality a period of increasing monopolization, internationalization of capital, and marginalization of labor. The periodization used in this essay would suggest that once the fiscal and financial systems had been reorganized, a period of competitive capitalism opened after 1940, but this soon turned into monopolization. Although the frustrated attempt to resolve the inconsistencies of the model under Echevarría is treated much the same way as in Tello's book, this approach marks an advance in the structuralist critique in that it argues that the impasse was the result of the nature of the previous development model as such, rather than its unbalanced application. It also suggests that oil resources alone would not allow an essentially *echevarrista* programme to be implemented (i.e., without financial crisis), but rather that the mobilization of organized labor as the force behind state intervention is necessary. What this approach still lacks, however, is empirical attention to the process of dependent accumulation in general and to the nature of profits in the Mexican economy in particular.

The "orthodox" view of the two periods is, of course, diametrically opposite: desarrollo estabilizador is seen as just that (although it is pointed out that excessive protection of domestic industry and food subsidies were already impeding market efficiency by the 1960s), while the 1970–76 period is seen as one of unrealistic reformism and debauched Keynesianism. It is a pity that, as far as this reviewer is aware at least, Solís appears to have decided not to publish his own fascinating account of economic policy during the 1970–76 period,<sup>12</sup> because this provides not only a counterpoint to Tello's views but also an argument for the return to the monetary policies of the 1960s. In particular, the private banks are seen as positive factors in economic growth in the 1960s and passive victims of deficit finance in the 1970s. This carries the implication, of course, that the oil funds should be channelled through the financial system rather than through public expenditures as such. However, an excellent statement of this position has recently been published by Thompson,<sup>13</sup> who argues that the adoption of monetary stability in the mid-1950s was the key to rapid growth thereafter, particularly since it led to "financial deepening" and the mobilization of domestic investible savings. The analysis of the strategic shift in the 1950s is very good indeed, the rising influence of the bankers on economic policy being well illustrated; the reassertion of the economic role of the state under Echevarría is not so perceptively handled, and the reasons why the attempt at tax reform failed are glossed over with one phrase ("... insufficient support was available for higher taxes . . .") while no indication is given of the fact that the Mexican effective tax burden is one of the lowest in the world. At a deeper level, this "orthodox" approach fails to analyze in an empirical sense the role of finance in Mexican growth; it is simply assumed that more bank deposits mean more private investment, despite the fact that companies have financed themselves from retained profits while private banks (including *financieras*) have only lent short ever since 1940.<sup>14</sup> The impression given by this book, despite its significant contribution to the financial history of the 1950s, is of a certain stagnation in the orthodox view of the Mexican economy.

The monetarist view has, however, gained in sophistication in recent years. Early studies (including, of course, Solís' own work with Brothers)<sup>15</sup> tended to suggest that the Mexican authorities had little real control over money supply because this depended upon bank deposits by the general public and short-term capital inflows; thus the government could do no more than pursue a passive monetary policy. There was, moreover, little analysis of inflation as such. This was developed further in the 1970s under the influence of the "monetary approach to the balance of payments": here it was argued, on the basis of economic evidence, that with a fixed exchange rate, the level of domestic prices and the rate of interest for a small open economy such as Mexico

are determined externally (i.e., in the United States). In effect, the causality is reversed and the money supply is held to determine the balance of payments.<sup>16</sup> This contrasts with the structuralist view of the external gap as being determined by the pattern of industrialization; but neither side had an explanation of domestic inflation as such—an issue that became central by the late 1970s. This was provided by the inclusion in the analysis of a sizeable nontraded sector, which means that for a given demand for real money balances (generally agreed to be a function of national income, as no other variable seems to give a good econometric fit), excess money supply is not immediately absorbed by the balance of payments but rather by a deviation in the rate of (parity-adjusted) inflation from the exogenous trend.<sup>17</sup> Nonetheless, the monetarist position is that the conditions of the “successful” 1955–70 growth process should be recovered by a return to less government intervention, with a neo-classical stress on the need for lower tariff barriers and less “price distortions.” It is in this sense that the orthodox position seems to have advanced very little from the position defended in Solís’ survey paper.

Inflation is also the central theme of a book by Barkin and Esteva,<sup>18</sup> which opens up yet another approach to economic policy analysis in Mexico, one which does not correspond to either structuralist or monetarist views of the problem. Theirs is essentially a “sociological” view, which sees the overall price level as determined by the conflict between different social classes over the economic surplus, successive attempts to maintain or increase wage and profit levels rather than money supply or growth problems being the prime cause of inflation. It is argued that only a true democracy (presumably as opposed to the Mexican variety) would resolve the social conflicts, organize an equitable distribution of national income, and avoid inflation. This view is relatively novel in the Mexican context, but the authors’ case is weakened by the lack of formal specification in their model (particularly of the effects of fiscal structures, the stability or otherwise of business markups, and the influence of external price levels) that would allow them to integrate their approach with the recent theoretical advances in “neo-Ricardian” economics.

A further area of sociological contribution to the economic debate has been in the analysis of entrepreneurial groups. All the economists in the debate make some assumption, explicitly or implicitly, about the strength of domestic industrial capital. The radical writers assume it to be a distorting influence, the structuralists that it is incapable of further unaided industrialization, and the monetarists that it should be allowed to get on with the job. Despite this, there has been relatively little empirical research on this topic, so the study by Vellinga<sup>19</sup> on the Monterrey group is of special interest, particularly as the economic role of those industrialists is firmly located in the context of their relations with the state, their workers, and foreign companies. It is to be hoped that

studies of this type herald more research on the Mexican private sector, which has successfully maintained a degree of mystery unparalleled elsewhere in Latin America.

Despite the somewhat melancholy fact that the decline of major academic centers in Chile and Argentina has left Mexico City as virtually the only center of liberal social science in the Latin American continent, the response in terms of economic journals has not been great. In contrast to the spate of political and sociological journals, only the recently revived *Investigación Económica* (published by the UNAM School of Economics) provides a strictly academic outlet for scholarly research, covering both theoretical problems (such as the debates on the theory of value) and empirical issues ranging from evaluation of the Echevarría *sexenio* to wage trends in the 1940s. Unfortunately, the prestigious *Trimestre Económico* appears to have got stuck in a style of Latin American *dependencia* that emerged in the late 1960s. However, there have been signs of economic discussion in greater depth by the press in recent years. Monthly political magazines such as *Proceso*, and intellectual ones such as *Nexos*, give considerable space to both current and historical debates; the readership of this sort of journal, although not large, does correspond to the intellectual elite in general and the bureaucratic heights in particular. An interesting arrival on the scene has been the daily *Uno mas Uno*, which is chipping away at the conformism of Mexican journalism; a number of heavyweight articles are carried, particularly on international economic matters. The economic debate is therefore, carried out in public, so to speak, to a far greater extent than before. Meanwhile, the indefatigable labors of the Fondo de Cultura Económica and Siglo XXI in publishing not only Mexican authors but also making leading theoretical economists available in Spanish should not be underestimated. Finally, the proceedings of the annual conference of the Colegio de Economistas, now being published in volume form, do provide a broad coverage of the current issues that concern Mexican economists.

Despite the richness of the economics tradition in Mexico, the quality of statistical sources on the Mexican economy in the past has not been good. For example, the first complete set of national accounts was issued as late as 1969, and the next set was only available in 1977; in both cases those were limited mimeograph editions.<sup>20</sup> This may be part of the reason for the lack of quantitative work remarked upon by Solís. The paucity of macroeconomic data cannot be attributed simply to the secretiveness of the Mexican state; after all there is an enormous amount of information on much more sensitive subjects such as the peasantry. Rather it would appear that the necessity for good aggregate statistics in policymaking was not so apparent when the economy seemed to be running so well in the 1960s; when the need became urgent in the 1970s, the relevant institutions such as the Banco de México were monetarist

rather than Keynesian and thus concentrated their attention on excellent statistics on the monetary variables. However, the Sistema Nacional de Información, part of the new Secretaría de Programación y Presupuesto founded by President López Portillo, has brought together the main statistical functions of the Mexican state, and is implementing a new approach—that of publishing in standard form all the available statistics. A series of compendia on the main production sectors and monographs on the sources themselves<sup>21</sup> now give the researcher direct access to quantitative data, while the very detailed 1970 input-output matrix<sup>22</sup> provides the foundation not only for aggregate macroeconomic programming—which has recently taken a considerable step forward with the construction of a formal model by the Mexican treasury<sup>23</sup>—but also for the production of a new set of comprehensive national accounts along the lines of the United Nations system.

It has already been suggested in this review that the current debate on the Mexican economy is concerned with much the same issues as in the 1960s; but in effect the debate was framed in the same terms in the 1920s and 1930s, when the interventionists were in the ascendant and Pani's arguments for free markets, strong banks, and foreign investment were overruled. That the debate should have changed so little in half a century is hardly likely to be the consequence of a lack of creativity in Mexican economists; in part it is doubtless due to the fact that the basic elements in the debate (growth versus distribution, efficiency versus employment, planning versus market, trade versus dependency, and so on) are common to the human condition. In general terms, "la cuestión nacional" is a theme as old as the republic itself, playing as it does upon the dominance of the U.S. and the pervasiveness of poverty. There is beyond these perennial themes, however, a specific sense in which the "unfinished business" of the Mexican Revolution is reflected in the works reviewed here: whether the historical objective was modern capitalism or social justice. The oil revenues may permit the state enough freedom of manoeuvre during the next sexenio to resolve the issue in practice; but strategic choice will depend to a considerable extent upon the realm of ideas.

Roger Hanson suggests, in the 1974 introduction to his brilliant book which is now available in Spanish,<sup>24</sup> that the present economic development dilemma can be expressed as the choice between establishing control over the private sector again (at a high short-term cost) or continued social deterioration; the judgement is still a sound one. However, his conclusion that little is known about the attitude of the governing elite to the choice because "those who do, don't talk very much except, presumably, to each other" is increasingly belied by literature such as that under review.

## NOTES

1. L. Solís, "Mexican Economic Policy in the Post-War Period: The Views of Mexican Economists," *American Economic Review* 61, no. 3 (1971). Indeed, the outstanding quantitative analysis of Mexican economic development had just been written by a gringo, C. W. Reynolds, *The Mexican Economy: Twentieth Century Structure and Growth* (New Haven: Yale University Press, 1970). Solís' paper was later published in amplified form as *Controversias sobre el crecimiento y la distribución; las opiniones de economistas mexicanos acerca de la política económica* (México, D.F.: Fondo de Cultura Económica, 1972).
2. El Colegio de México, *Ciencias sociales en México: desarrollo y perspectivas* (México, D. F.: El Colegio de México, 1979).
3. The importance of this phenomenon, and its exploration by Mexican social scientists, is amply discussed in El Colegio de México *Ciencias sociales*. For this reviewer's views on the relative autonomy of the Mexican state in the context of postrevolutionary economic development, see "The State and Capital Accumulation in Mexico," *Journal of Latin American Studies* 10, no. 2 (1978).
4. This itself is not a new phenomenon either, of course, as Jesús Silva Herzog pointed out some time ago in his magisterial *El pensamiento económico en México* (México, D.F.: Fondo de Cultura Económica, 1947).
5. SPFI, *Plan Nacional de Desarrollo Industrial, 1978–1982* (México, D.F.: Secretaría de Patrimonio y Fomento Industrial, 1979). This document has the status of law, and its projections run, in fact, up to 1990.
6. C. Tello, *La Política económica en México, 1970–1976* (México, D.F.: Siglo XXI, 1979).
7. *Ibid.*, p. 207.
8. C.I.D.E., *Economía mexicana* (México, D.F.: Centro de Investigación y Docencia Económicas, 1979).
9. His major work, *Teoría y práctica de desarrollo*, was only published by the Fondo de Cultura Económica in 1976, even though it was written and circulated privately twenty years earlier.
10. That is, using Marx' analytical method without necessarily "Marxist" conclusions.
11. P. Gonzalez and E. Florescano (eds.), *México hoy* (México, D.F.: Siglo XXI, 1979). The chapter in question is by P. Ayala et al., "La crisis económica: evolución y perspectivas"; the "periodization" idea being attributable to R. Cordera.
12. L. Solís, "A Monetary Will-'o-the-Wisp: Pursuit of Equity through Deficit Spending," *Woodrow Wilson School Discussion Paper No. 77* (Princeton, 1977).
13. J. K. Thompson, *Inflation, Financial Markets and Economic Development: The Experience of Mexico* (Greenwich, Conn.: JAI Press, 1979).
14. For a further discussion of this issue, and its relation to the problem of the influence of the financial community on economic policy, see E. V. K. Fitzgerald, "A Note on Capital Accumulation in Mexico: The Budget Deficit and Investment Finance," *Development and Change* 11, no. 3 (1980).
15. J. Brothers and L. Solís, *Mexican Financial Development* (Austin: University of Texas Press, 1966).
16. M. Blejar, *Dinero, precios y la balanza de pagos; la experiencia de México, 1960–1973* (México, D.F.: Centro de Estudios Monetarios Latinoamericanos, 1977); D. S. Wilford, *Monetary Policy and the Open Economy; Mexico's Experience* (New York: Praeger, 1977).
17. A Gomez-Olivier, *Dinero, inflación y comercio exterior de México* (México, D.F.: Centro de Estudios Monetarios Latinoamericanos, 1978).
18. D. Barkin and G. Esteva, *Inflación y democracia: el caso de México* (México, D.F.: Siglo XXI, 1979).
19. M. Vellinga, *Economic Development and the Dynamics of Class: Industrialization, Power and Control in Monterrey, Mexico* (Assen: Van Gorcum & Co., 1979).
20. Banco de México, *Cuentos nacionales y acervos de capital, 1950–1967* (México, D.F., 1969); Banco de México, *Estadísticas de la Oficina de Cuentas de Producción, 1960–1976* (México, D.F., 1977).



21. These are published continually by the SNI under the general title *Información sobre información*.
22. SNI, *Matriz de insumo producto, 1970* (México, D.F., 1978).
23. SHCP, *Aspectos dinámicos de la economía mexicana: un modelo macroeconómico* (México, D.F.: Secretaría de Hacienda y Crédito Público, 1979).
24. R. D. Hanson, *La política del desarrollo mexicano*, 9th ed. (México, D.F.: Siglo XXI, 1979).