REPORT

JUAN CARLOS MORENO-BRID AND KEVIN GALLAGHER

Mexico's Road to a Green New Deal

To tackle intersecting climate and economic crises, Mexico must first break away from decades of neoliberalism and fiscal austerity.

In his December 2018 inauguration speech, Mexican president Andrés Manuel López Obrador declared the demise of neoliberalism and promised to eradicate corruption, identifying them as the ultimate causes of the Mexican economy's weak growth, acute inequality, and widespread poverty. He came to power in a historic landslide victory, with his political party MORENA winning a majority of seats in both chambers of Congress. Today, after more than a year in office, it is too soon to give a full assessment of his administration. But it is certainly useful to evaluate the extent to which his policies help or not in shifting the Mexican economy to a dynamic path of environmentally sustainable and inclusive long-term growth.

Spoiler: The main policies the government has implemented thus far—with the notable exception of those strictly focused on the labor market—have not removed the constraints that have hindered Mexico's sustainable economic and social development for decades. They actually may be making some of these restrictions even more binding. In this regard, we are convinced that in order for López Obrador's government to avoid going down in history as just another *sexenio*—or six-year term—of wrong turns and missed opportunities in Mexico's quest for development, it must forge a revitalized social pact that includes key economic and political actors in favor of a new development agenda in the spirit of a Green New Deal.

AMLO's policies both continue and break from the neoliberal status quo that has predominated since the mid-1980s, when the developmentalist agenda of state-led industrialization was shunned in favor of market reforms and the dismantling of public sector interventions. Zooming in on the main characteristics of Mexico's economic performance in 2019, it is clear that, so far, the country's economy is not on a more sustainable, inclusive, and dynamic trajectory.

Mexico is now at a crossroads, where its healthcare system and economic model make it one of the most vulnerable in the world as it faces COVID-19 and the subsequent economic crisis. The only way to get out of this crisis alive is to adopt a recovery and reconstruction plan with a different development agenda, along the lines of the Green New Deal. This calls for reflecting on the policy tools available to implement such an agenda—and the political challenges that must be overcome to give it momentum.

Such a Green New Deal would require significant shifts in key macroeconomic and sectoral policies of the AMLO administration, most conspicuously regarding energy, environmental, fiscal, and social matters. Difficult as such a shift may seem, we believe it will be much more complicated and risky to persist with the current economic strategy—a strategy very similar to the neoliberal one that marked Mexico's public policies from 1985 to 2018.

AMLO's Economic Agenda

AMLO has long derided neoliberalism. Now, as president, he claims to inaugurate a new dawn in Mexico's development path, with the needs of the poor as a top priority. From the mid-1980s to 2018, Mexico's enchantment with neoliberalism was in full bloom, and it defined the entire policy

Routledge Taylor & Francis Group

During a Fridays for Future youth climate march in Mexico City, a demonstrator carries a sign reading: "I don't want a refinery, I don't want the Maya Train, I want a planet to live." (FRANCISCO COLÍN VARELA/FLICKR)

agenda. Achievements of this era included managing to consolidate low and stable inflation, minimal fiscal deficit, and an outward orientation of Mexico's most dynamic industries. Manufactured exports became the engine of growth. However, neoliberal policy failed miserably in its quest to bring about high and persistent growth for the overall economy. In addition, acute inequality and vast incidence of poverty kept tarnishing Mexico's desired image of a modern society with a welfare state, on par with the OECD countries. From 1985 to 2018, Mexico's annual average GDP growth rate was 2.4 percent, and just over 1 percent in per capita terms—among the worst growth rates in Latin America and the so-called emerging markets or semi-industrialized nations in the developing world. This performance implied, in particular, a widening gap in GDP per capita vis-à-vis the United States, as well as a rather disappointing result in terms of decent job creation and of the reduction of inequality.

A primary reason for this disappointing economic performance in the midst of an export boom was the weak response of investment to the market reforms. Total investment remained below 25 percent of GDP—and in recent years barely above 20 percent—as cuts to public investment combined with a limited private investment response. Researchers Gerardo Leyva and Alfredo Bustos, among others, have shown that during former president Enrique Peña Nieto's six-year administration ending in 2018, income inequality—as measured by the GINI coefficient—was unacceptably high and continuing to

rise, while more than 80 percent of the population lived in conditions of poverty or social vulnerability, according to government data. Meanwhile, escalating violence, and specifically femicides targeting women, had become a major concern among the population. And amid corruption scandals, discontent with Peña Nieto was widespread.

Against this far-from-flattering picture of Mexico's socioeconomic landscape, AMLO launched his allegedly new development strategy. If he was to pursue a new developmentalist policy agenda in the spirit of a Green New Deal, one would have expected an ambitious plan to shift the oil- and gas-dependent nation away from fossil fuels and other extractive sectors. Such a shift would entail a bold set of industrial policies oriented toward clean energy, higher value-added manufacturing, and, at the same time, equitable and socially inclusive development. On the macroeconomic side, such a strategy would necessitate regulating capital flows away from extractive sectors and short-term speculative instruments and toward this greener path, as well as steering fiscal and monetary policy toward such ends as well.

Unfortunately, however, AMLO's policies have failed to chart such a bold course. Contrary to his anti-neoliberal discourse, the rationale, tools, and objectives of his key policies are very similar to those of previous administrations. Indeed, the top priority of his macroeconomic policy is identical to the neoliberal one: guaranteeing nominal stabilization—low inflation and a fiscal balance of zero or preferably on the surplus side—as a necessary and sufficient condition for economic expansion. Financial deregulation and monetary policy, based on "inflation targeting" and a preference for a persistently overvalued peso, has remained unchanged. Development banking—which had been pioneering new approaches to a clean energy transition in Mexico—has in fact been weakened in the new administration as well.

On fiscal policy, the stance is the most neoliberal and procyclical that Mexico has seen in decades. AMLO's mantra for the public sector is strict austerity. He has stated that: no fiscal reform will be implemented in the first three years of his mandate; the budget should register a primary surplus throughout his term, excluding interest payments on public debt; and public debt will not increase as a percentage of GDP. Such policies remind us of Margaret Thatcher's dictum that a government should not spend above its means. In practice, in 2019, these self-imposed fiscal constraints led to a 5 percent reduction in public investment and, as a result, to a further deterioration of Mexico's infrastructure. They also eliminated any possibility of strengthening public revenues and of using taxation to reduce income inequality. And, by banning deficit spending, they introduced a procyclical bias on fiscal policy. Most worryingly, according to the government's six-year plan, public investment will drop from 2.7 percent of GDP in 2018 to 2 percent by 2024—a totally insufficient magnitude. Consistent with such austerity measures, AMLO's administration reorganized public expenditures to facilitate its priority projects. These leading initiatives include a gamut of ambitious direct cash transfer programs, such as Youth Building the Future, Seeding Lives, and Elderly Adults, and three huge investment projects: the Maya Train, a new oil refinery in Dos Bocas, and a new airport in Santa Lucía. To accommodate these projects, the AMLO government has laid off workers in state agencies and slashed wages in the public sector.

On the environmental front, the AMLO government has granted prominent roles to the state oil company Pemex and the state-owned Federal Electricity Commission (CFE). The fox is guarding the hen house, with these industries rolling back and stalling climate change advances that had been taking shape. While clearly advancing neoliberal economic policy, AMLO's predecessors were strong on climate change and had bold—even if contradictory—plans for developing green energy. In a nutshell, AMLO's administration sees environmental concerns as a nuisance to its dirty energy and infrastructure plans.

On the positive side, AMLO has overseen major changes in labor market regulations. The government

raised the minimum wage first by 16 percent and then by 20 percent to bring it up to an amount that covers basic goods and services. And it also enacted a major reform of trade union regulation to bring it in line with international standards. On the other hand, industrial policy remains as passive and irrelevant as in the past, with the provision of virtually non-conditioned microcredits to small and medium sized enterprises as its key instrument. Trade policy relying on free trade agreements—and overly focused on the U.S. market—remains identical, with the United States-Mexico-Canada Agreement (USMCA) replacing NAFTA. The USMCA has no mention of climate change whatsoever and gives large loopholes to the oil and gas sector in Mexico.

Predictably, under policies so similar to the neoliberal ones in place since the mid-1980s, the Mexican economy has continued on its weak trajectory. AMLO's policies have merely accentuated prior deficiencies on the development front while maintaining its gleam on the stabilization front. Indeed, in 2019 inflation remained very low and stable, the fiscal budget registered a primary surplus, the debt-to-GDP ratio remained constant, the peso actually appreciated against the U.S. dollar, and exports were the most dynamic component of demand. Average real wages rose, and labor's share of domestic income improved slightly. On the other hand, the economy stagnated, GDP per capita declined in real terms for the first time in more than a decade, and job creation fell to its lowest point in years with a net addition of only 400,000 jobs in 2019—just 33 percent of the 1.2 million needed. Fixed capital formation collapsed in both the public and private sectors as the business climate soured. Most worryingly, there has been a setback on the progress made towards a low-carbon economy as the new government has bet on fossil fuels, showing scant interest in—if not outright disdain toward—international commitments to contain greenhouse gas emissions and move to a low-carbon growth path.

Indeed, Mexico's economic outlook for 2020 has worsened due to the oil war between Russia and OPEC, which, combined with the ongoing economic fallout from the coronavirus, has severely reduced public revenues and provoked an outflow of foreign capital. Given this dismal external context, how should Mexico's fiscal, monetary, and economic planning authorities respond? In our view, this is a great opportunity to substitute austerity for a new development agenda with a social and fiscal pact committed to a Green New Deal for Mexico. While the term itself may not resonate well outside U.S. borders given the imperialism of U.S. foreign policy toward Latin America during the New Deal era, the Green New Deal framework offers a useful reference point for the scale of policy intervention required to tackle the climate crisis.

> This a great opportunity to substitute austerity for a new development agenda with a social and fiscal pact committed to a Green New Deal for Mexico.

The Only Way Out

The International Monetary Fund reckons that Mexico's economy could contract by 6.6 percent in 2020, making it one of the worst years in Mexico's modern history. This will be the ultimate test for AMLO, and a major opportunity. The downturn in global trade and production brought about by the coronavirus, the plummeting price of crude oil in world markets, and the intensifying pressure of credit rating agencies on Pemex and on Mexico as a whole offer a unique opening to change course on macroeconomic policy and the development agenda. AMLO's government will have to put in place a package of unprecedented countercyclical fiscal and monetary policies to combat the COVID-19 pandemic and the subsequent economic crisis.

To launch and implement a Green New Deal in Mexico, the first requirement is not technical but political. First, AMLO's government must be convinced that a shift in its policy agenda in this direction—an about face from its fiscal austerity-centered strategy—is urgently needed. And second, it is indispensable to start firm, fast, and transparent negotiations between the government, the private sector, and workers to create a climate of mutual trust and a concerted, transparent strategy, as well as investment projects committed to this new development agenda for sustainable and inclusive growth. Such negotiations must convince key economic and political actors—within both the public and private sectors—to work hand-in-hand for a big push in favor of a Green New Deal.

Now that all Mexicans face COVID-19's health and economic crises, Mexicans can unite around a common enemy and a new direction. A favorable wind in this direction is the expert consensus that, given the external shocks—combined with the slowdown of industrial production and the stagnation of the economy last year—the Mexican economy will fall into a recession in 2020. Such poor economic performance, for a second year in a row, is something that AMLO will most likely try to avoid. A second factor is the regained sense of respect on the world stage for the "administrative state" as a result of the coronavirus emergency, as Financial Times columnist Janan Ganesh put it. Another favorable force is the citizens' intensified pressure on governments—globally and in Mexico alike—to take concerted and local actions to mitigate climate change's adverse effects. There is more than abundant scientific evidence on the need and varied technical possibilities for climate action. And, as the United Nations Conference on Trade and Development and many other international organizations and think tanks have systematically argued, the magnitude of the social and economic benefits of such action would vastly surpass its costs.

A crucial—perhaps the crucial—shift that AMLO's economic agenda needs to carry out concerns fiscal policy. Mexico must do away with AMLO's obsession with austerity, his ideological rejection to any type of tax reform, his commitment to fossil fuels, and the environmental neglect that has so far marked his administration's pet investment projects. Mexico is in painful need of an in-depth fiscal reform to foster sustainable, inclusive, and dynamic long-term growth. Three elements should mark this reform effort: significantly increasing public revenues so that income is more evenly distributed among the population; augmenting and modernizing public infrastructure to boost the economy's growth potential or to improve the socioeconomic conditions of the poor population; and strengthening the state's capacity to act in a countercyclical way—that is, allowing for a budget deficit in downswings and a surplus in upswings.

A second major policy shift to give concrete form to a Green New Deal is industrial transformation via the innovation and technology sectors. An active industrial policy firmly committed to transforming Mexico into a low-carbon economy is a key tool in this endeavor. In particular, ambitious, carefully monitored, and goal-oriented technology and innovation policies are indispensable, if well-aligned with environmental concerns. In the context of a Social Pact for a Green New Deal, government action encouraging profitable investment opportunities would offer a firm commitment to moving forward in the joint implementation of an energy transition strategy for sustainable development, phasing out dependency on fossil fuels.

Besides a big push to base Mexico's economic competitiveness internationally not on low wages but on value-added technology and innovation, the suggested change in the policy agenda also calls for a new role for development banks. Mexico's two main development banks—Nafinsa and Bancomext—should be transformed and given the institutional mandate, resources, and capacity—à la the East Asian model—to act as policy banks. As the Korea Development Bank and the KfW Development Bank in Germany have shown, development

banks—alongside strong regulations and incentives for the private sector—are essential to green transformation and social adjustment. Finally, a Green New Deal would be nothing more than good intentions unless social and economic policies are geared to gradually build up a universal social protection system that provides timely, accessible, and quality health and social security services for everyone.

The call for building such a Social Pact for a Green New Deal must gain more prominence in Mexico's political and economic debate—especially now that external shocks are forcing the government, the private sector, and civil society to rethink the role of the state in forging an inclusive, sustainable economy. In fact, the impending recession—though hopefully not crisis—has forced the government to acknowledge the need to modify its position on important policy tools and certain intermediate public policy objectives. We must seize this moment for a Green New Deal. If we fail to do so and go back—once the emergency is over—to the macroeconomic and sectoral policy status quo that so far has defined the AMLO administration, we may end up making the constraints that have systematically derailed Mexico's quest for sustainable and inclusive development even more binding. n

Juan Carlos Moreno-Brid *is professor at the Faculty of Economics, Universidad Nacional Autónoma de México.*

Kevin Gallagher *is professor and director of the Global Development Policy Center at Boston University's Pardee School of Global Studies.*