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Karl Polanyi and social justice

By Maria Alejandra Madi

An alternative notion of "economy"

In the introductory note to the book *Trade and Market,* Polanyi invites the readers to re-examine the notion of the "economy" since many people think that the only way of organizing the livelihoods of men is the market economy. In his own words:

> *What is to be done, though, when it appears that some economies have operated on altogether different principles, showing a widespread use of money, and far-flung trading activities, yet no evidence of markets or gain made on buying or selling? It is then that we must re-examine our notions of the economy.* (Polanyi et al, 1957: xvii).

In order to develop an alternative notion of the "economy", Polanyi proposed a new theoretical approach to explain the place and role of human beings in social and economic systems. As a result, in his approach, social matters turn out to be anthropological ones and the role of history is highly relevant. As Polanyi wrote:

> *But a purposeful use of the past may help us to meet our present over concern with economic matters and to achieve a level of human integration, that comprises the economy, without being absorbed in it.* (Polanyi et al., 1957: xviii).

Indeed, while considering historical references, Polanyi provided a guide to examine different economies and claimed that empirical observations reveal economic life to be entirely different from that assumed by formal economic analysis (Polanyi et al, 1975: 243-44). Against the methodological approach to economics based on assumptions, premises and deductive reasoning, Polanyi proposed the method of economic anthropology that depends upon principles of economic behavior that are induced from empirical observation.

Evidences of economic life in early societies: reciprocity and redistribution

From the empirical evidence of economic life in ancient times and primitive economies, Polanyi explained the concepts of reciprocity and redistribution. In early societies, men value those material goods that serve the end to promote protection and social standing. The reciprocity principle implied that in some early societies there was an unspoken agreement and, on behalf of it, people produced goods and services for which they could do best and shared them with those people that lived around who also behave alike. All of them contributed according to their abilities to the common welfare, and all shared according to their needs. Their motivation to produce and share was not the economic motive, but the fear of loss of social prestige. The redistribution principle was found in those societies where a chief or leader, after a harvest or a hunting expedition, redistributed the storage to members of his group. The distribution of communal wealth reinforced the social structure where the allocation of the storage indicated status and importance.

Polanyi addressed that although ancient and primitive economies had market places, they were not market economies. In this scenario, daily local markets were merely exchange places operating within the broad system of reciprocity. Local craft and provision markets were isolated by the local authorities from the long distance ones (ports of trade) that only sold items which could not be provided within the local system of reciprocity (Polanyi et al., 1957).

Polanyi's historical analysis of economic change emphasizes the relevance of ethical principles that support a conception of human beings that is social and whose fundamental motivation is to protect and enhance social standing (Polanyi, 1977). Therefore, his contribution calls for a reflection about the relations between material goods and the behavior of human beings towards the aim of achieving social standing. All societies studied by him - other than market societies - protect themselves by promoting values that foster social standing. Indeed, the understanding of the role of the values that shape human behavior is absolutely relevant to comprehend the ethical challenges in market societies.

The Great Transformation: poverty on large scale

In the analysis of the economic and social transformations of the nineteenth century, Polanyi noted that the emergence of a market economy pushed to the side the old economic and social systems based on reciprocity and redistribution. Since then, the market economy has been characterized as an economic system controlled by prices that determine what, how and how much is produced and how is distributed.

As Polanyi explained, the decisions about production and distribution are guided by the economic motive and they do not aim at achieving common welfare. Indeed, in the market economy there are not social considerations in the decisions about production and distribution.

In his well-known book, *The Great Transformation,* one key-question is: *Where do the poor come from?* To answer this question, Polanyi described the birth of the market economy and the emergence of the labor market in nineteenth century Western civilization (Polanyi, 1944:87). After land and money had already emerged as commodities, the commodification of labor – that is to say the commodification of human lives - resulted from land appropriations through enclosures. In this historical setting, the process of social change created by the market economy led to the emergence of poverty on a large scale.

Karl Polanyi described the desolation, dehumanization and degradation of human lives as necessary steps for the emergence and expansion of the labor market in a market economy:

> *Before the process had advanced very far, the labor-ing people had been crowded together in new places of desolation, the so-called industrial towns of England; the country folk had been de-humanized into slum dwellers; the family was on the road to perdition; and large parts of the country were rapidly disappearing under the slack and scrap heaps vomited forth from the "satanic mills." Writers of all views and parties, conservatives and liberals, capitalists and social-ists invariably referred to social conditions under the Industrial Revo-lution as a veritable abyss of human degradation.* (Polanyi, 1944: 41).

His analysis also enhanced a critique of some well-known economists and public men such as Townsend, Malthus, Ricardo, Bentham and Burke who considered that the provision of extensive relief to the poor by the government (such as the Poor Laws in England) would negatively affect the rate of economic growth.

Polanyi decisively condemned the hunger of workers as the only way to increase the levels of production in a market economy. In fact, he contended that the "iron" laws governing a competitive market economy are not human laws. It is worth recalling his own words:

> *The true significance of the tormenting problem of poverty now stood revealed: economic society was subjected to laws which were not human laws.* (Polanyi, 1944: 131).

The economy serving society

Beyond the economic laws, Karl Polanyi highlighted the relevance of the ideology of economic liberalism that supports the creation of a market system (Polanyi, 1944: 141). The self-regulation of the market creates the conditions that make the market the only organizing power in the economic sphere, that is to say, the central mechanism for the production and distribution of goods. The market economy dramatically impacts on the social spheres since the spread of market-based values turns to "*disjoint man's relationships and threaten his natural habitat with annihilation*." (Polanyi, 1944: 44). Remembering his own words,

> (..) *the control of the economic system by the market is of overwhelming con-sequence to the whole organization of society: it means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system. … society must be shaped in such a manner as to allow that system to function according to its own laws. This is the meaning of the familiar assertion that a market economy can function only in a market society.*" (Polanyi, 1944: 60).

What Polanyi adds to our understanding of the current social and economic challenges is that the aim of the market economy – the economic motive - is not compatible with the goals of peace and freedom. According to him, if people want peace and freedom in the future *"they must become chosen aims of the societies towards which we are moving*" (Polanyi, 1944: 263). In truth, the aim of social justice needs to promote a human-based and community-oriented economic process supported by values that protect society.

Indeed, the contribution of Polanyi opens up new perspectives to think about an ethical living in contemporary capitalism. If economic and social change is to be authentically human-oriented, it needs to make room for values that favor social standing. The Polanyian ideal of social justice can be summarized in the following words: "*The economy has to serve society, not the other way around*".

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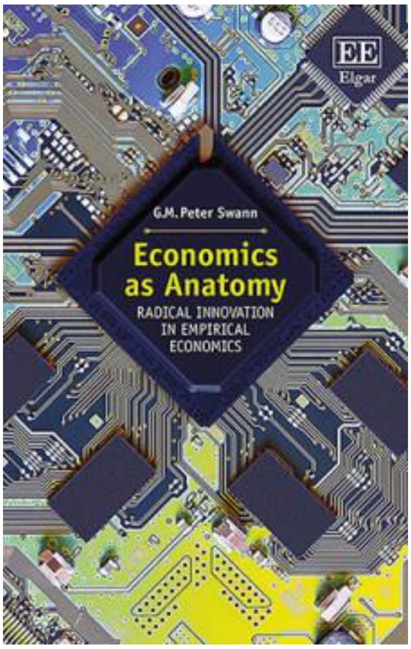
What can economics learn from medicine?

By Peter Swann

[Editor's note: G.M. Peter Swann is Emeritus Professor of Industrial Economics at Nottingham University Business School]



Arnold Harberger once said that, when he thought about economics as a discipline that also has practitioners, "the analogy I like best is with medicine … a profession with one foot planted in medical science, the other in what we know as the practice of medicine."[1] And Keynes famously suggested that, "if economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid!"[2] If the analogy with medicine and dentistry was good enough for Harberger and Keynes, then it is good enough for me.

Nevertheless, we should be clear that there are some fundamental differences between economics and medicine. This point has been well made in a thoughtful piece on the *RWER Blog* by Peter Radford.[3] Therefore, I shall limit myself to listing five things that economics can usefully learn from medicine.[4]

First, it is widely recognised that medicine is not a single discipline, but a federation of semi-autonomous sub-disciplines.[5] Indeed, this is true of many other disciplines too, including: physics, chemistry, neuroscience, materials science, cognitive science, computing, geography, history, and business studies. Medicine is one of the best examples of a federation, because the sub-disciplines enjoy (and need) some autonomy but adopt common standards to facilitate trade between them. In comparison, the economics discipline appears to be much closer to the unitary state model of an academic discipline. True, there are sub-disciplines, but they have little autonomy, and are expected to conform to the methodological standards of mainstream economics. Many of the problems recognised by critics of the mainstream, and by practitioners and those who use economics, would be easier to solve if economics were such a federation.

Second, many of the problems identified by critics stem from an inadequate empirical foundation to economics. Within the medical federation are three absolutely fundamental empirical sciences that are required knowledge for all who practice, study or research medicine: anatomy, physiology and pathology. They are sometimes called the 'three eldest daughters of mother medicine'. They are heavily empirical, they involve detailed direct observation and description, and they underpin many of the other medical sub-disciplines. In comparison, the study of economic anatomy (structure) is sketchy, and the study of economic pathology (disease) is very underdeveloped. Indeed, one leading perspective asserts that pathological conditions are rare in free markets. Granted, the study of economic physiology (function) is very well developed (e.g. production functions, demand functions, and so on), but it is a 'black box' version of economic physiology, that rarely builds on economic anatomy. The dominant empirical technique in economics is econometrics, which uses indirect inference rather than direct description, and is therefore very different from anatomy.

Third, in addition to these three fundamental sciences, the federation contains a variety of sciences formed by the fusion of two disciplines (e.g. biochemistry), and a wider variety of complex hybrid sub-disciplines. I don't suggest that there is, or should be, an economic equivalent to each and every one of these. But economics would benefit enormously and would be far better placed to answer some of the criticisms it faces, if hybrids like these were to emerge within the economics federation. Why is that? Other disciplines criticise economics because, despite the fact that trade plays an essential role in the economy, the economics discipline does not seem to recognise the importance of trade with other disciplines.

Fourth, as noted in the earlier quotation from Harberger, one thing that medicine and economics have in common is that they both have scientists and practitioners, though the nature and number of these practitioners is very different in the two cases. It is instructive to compare the extent of scientific interaction between practitioners and scientists in the two disciplines: this interaction appears to be markedly better developed in medicine that in economics. Within medicine, indeed, there are some sub-disciplines that build on collaboration between practitioners and medical academic, but that seems much less common in economics. I have been involved in several such collaborations and am clear that they offer exceptional opportunities to learn things that cannot be learned from conventional academic research. Collaborations of this sort could deal with many of the criticisms of economics emanating from business and government.

Fifth, and finally, to borrow the words of John Donne, no discipline "is an island". What is expected of a discipline is not simply what the scholars of that discipline want to do in their discipline. There are wider social expectations which are discussed, informally at least, in a form of social contract. Medicine appears to have a good, though not perfect, understanding of the social contract governing their disciplines. But in economics, the picture is mixed: some economists appear to be sensitive to this social contract, while others appear to have little interest in what the wider world wants from economics.

I believe the idea of a federation can in principle offer the best of both worlds. It allows the core of the discipline to follow its traditional research approach, while creating new sub-disciplines to do the things that the core cannot do, and does not want to do. I understand that some researchers and practitioners from the core sub-disciplines may be sceptical about some of the new sub-disciplines. But there is a simple test of the usefulness of the latter: can they provide empirical methods or theoretical advances that work better than available methods in the core? If so, then they have earned their place.

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How monetary union is sacrificed on the alter of competitiveness

By Norbert Häring

European Economic & Monetary Union (EMU) is in permanent crisis. The economic strengths of the participating nations are drifting apart instead of converging. This creates great frustration among the governments of countries being left behind and fierce disputes between them and Brussels and governments of core countries.

The currency union was based on the premise that the economic structures and levels of prosperity among the members of the union would converge. The poorer countries would catch up. That didn't happen. On the contrary. Philipp Heimberger from the Vienna Institute for International Economic Studies (WIIW) warned in his analysis of October 2018:

> *"The most significant long-term risk of disintegration for the euro area is the existing polarisation in the production structures of 'core' countries and southern 'periphery' countries."*

While the German economy grew by 27 percent and the Austrian by as much as 33 percent between the beginning of monetary union in 1999 and 2017, Italy's grew by a modest six percent and Portugal's by 12 percent. In Greece, gross domestic product in 2017, adjusted for inflation, was at the same level as 19 years earlier. While the share of German industry in value-added remained almost stable at a high level, it fell sharply in the periphery countries.

The EU and the International Monetary Fund (IMF) blame the governments of the southern nations for the decline of the periphery. This is what the European Central Bank (ECB) writes:

> *"Convergence is mainly the responsibility of the national governments."*

For them, the lack of convergence has to do with weak institutions, structural rigidities, poor productivity growth and insufficient measures against house price bubbles. Similarly, the International Monetary Fund writes:

> *"The main responsibility for reviving productivity growth rests at the national level."*

Centrifugal forces

For Michael Landesmann and Roman Stöllinger from the WIIW, the ECB and IMF are being too simplistic. “One has to accept that institutional quality correlates with different development levels.” they argue. One cannot simply claim that economically less developed nations should develop institutions of the same quality as the most advanced.

In his analysis, Heimberger identifies “self-reinforcing processes” without compensating counter-forces within the framework of monetary union as the cause of these centrifugal economic forces. That explains why Germany with its technological lead was able to press home its industrial advantage, while the periphery nations fell further behind.

The cause of this phenomenon, he says, is the advantage of mass production: something that is hardly ever mentioned by the European Commission, the ECB or the IMF in their reports, based as they are on neo-classical economic theory. When trade barriers are dismantled and the market expands as a result, the leading suppliers of high-quality, complex products are the ones that profit. That is because they are particularly reliant on large markets, and achieving a high volume of production, to offset the high fixed costs arising from research and development. Where the average costs can be greatly reduced by an increase in production volume, the tendency for the market to concentrate on the leading suppliers is particularly strong. This effect, according to a gravity-based model of trade, favours companies at the centre of a trading area, as they have the lowest possible transport costs for the entire market. The further deepening of the common internal market, which the ECB strategy recommends as a means of convergence, will therefore, in the absence of counter-measures, tend to produce the opposite of convergence.

Terms such as “centre” and “periphery” have long ceased to a appear in the analyses of convergence-issues by the EU, IMF, and the ECB. The same is true for the tendency towards market concentration because of high fixed costs. Heimberger criticises the European Commission’s approach bluntly:

> *“A one-sided focus on ‘structural reforms’ and ‘solid fiscal policies’ is incompatible with a convergence process in the southern periphery”*

What is needed is an industrial policy at European level. Otherwise, the ever-increasing polarisation between industrial winners and losers will lead to “toxic conflicts” that endanger monetary union.

Landesmann and Stöllinger note that for some years there has been a newly awakened interest of economists in industrial policy. However, they criticise the fact that this is very much focused on the needs of the leading industrialised countries and the promotion of the most advanced technologies and processes. On the other hand, an economic research direction linked to Harvard economist Philippe Aghion, among others, stresses that countries at the forefront of technological development need a different industrial policy than technologically less developed countries. According to the WIIW researchers, those needing to catch up must promote their capacity to use and upgrade the technologies and processes that they already possess.

“Internal Colonialism”

The Norwegian economic historian Erik Reinert even talks about “internal colonialism” in the EU, because the community´s institutions ignore the obvious difference betwee*n the macroeconomic value of different industries and products – to the disadvantage of the periphery. The* more standardised the products, the higher the competitive pressure and the lower the value-added ratio. At the very bottom of the list are agriculture and simple services, while at the top are complex industrial products. Economic convergence would require the laggards to be given help to climb the complexity ladder. Instead, they are advised to become more competitive through cost reductions.

Reinert points to the change in the OECD´s definition of competitiveness. In 1992, when the Maastricht Treaty was signed, the club of industrialised nations defined competitiveness as “the extent to which a country **increases its domestic income**, and at the same time can produce goods and services, which are successful against foreign competitors”. In 2015 competitiveness for the OECD, on the other hand, is “a measure of advantage or disadvantage of a country in selling its products in international markets, measured mainly in terms of unit labour costs.”

Earlier, the economy was there to serve the people, later the people were there to make the economy competitive. In 1992, the goal of increasing competitiveness meant producing high quality products that allow for higher wages. In 2015 on the contrary, the goal was to reduce wages and thus unit labour costs. Such a strategy, Reinert argues, increases the competitive advantages of the laggards in low-value-added-production, and thus tends to exacerbate the divergence of economic structures.

The demise of neoliberalism in Mexico today: if so, so what?

By Juan Carlos Moreno-Brid, (UNAM), with gratitude to Martín Puchet for his comments

"Rumors of my death have been greatly exaggerated", Mark Twain (1897)

1. Background.

Last July, Mexico´s political landscape was turned upside down by the landslide victory of Andrés Manuel López Obrador (AMLO) in the Presidential elections, and of MORENA (his party) obtaining a majority of seats in both legislative chambers. In his inauguration speech, last December, he once again derided the neoliberal policies implemented in Mexico since the mid-1980s. He signaled Neoliberalism as the cause of Mexico´s calamitous long-term economic performance, marked by slow growth, rising inequality and widespread poverty. And blamed it as the origin of rampant corruption. He promised "…to abolish the neo-liberal regime" and to implement a different agenda with the poor as the main priority. On March 18, 2019, in a public act to launch the activities towards drafting the National Development Plan 2019-24, he declared the demise of Neoliberalism.

This paper has two purposes. The first is to assess the extent to which the discourse on Neoliberalism´s death is reflected in the course of the policies put in place by AMLO´s administration. The second is to examine whether the new strategy is adequately tailored to meet Mexico´s long-term challenges of growth, equality, structural transformation and poverty-alleviation. Whether AMLO´s strategy diverges from Neoliberalism is less relevant than whether it is likely to trigger a long-term phase of development and growth in the Mexican economy. As Deng Xiaoping said, "It doesn't matter whether a cat is white or black, as long as it catches mice".

The paper is organized as follows. After this introduction, the next section gives an understanding of Neoliberalism, and analyzes its roots, application and results in Mexico from De la Madrid (1982-88) up to Peña Nieto (2012-18). The third section looks at the policies so far put forward by AMLO´s administration. As is well known, the political discourse of his government derides Neoliberalism and claims to inaugurate a new dawn in Mexico´s development path. To assess this claim, this section gives a close look to key policies implemented in the first four months of the administration, paying special attention to fiscal and financial matters, industrial and trade policy as well as labor reform. *En passant*, it contrasts them with the policies applied during the Neoliberal era. The final section voices an assessment on the extent to which AMLO´s strategy, as seen so far, is likely to meet Mexico´s long-term development challenges. It also gives policy recommendations.

The assessment given here - early April 2019 - is very tentative. López Obrador took office four months ago, thus there is evidence for 1/18 of his six-year term, his *Sexenio*. If this were a soccer match, only the first five of the total 90 minutes of play have passed. Forecasting the final score now would be ludicrously audacious. But, these five minutes give a glimpse of the team´s strategy, strengths, weaknesses and may perhaps point to some necessary changes in strategy or players. In other words, this is a very preliminary assessment of the new government´s economic and social policies. It is based on key documents of the government on its development agenda as well as on the policies it has begun to apply.

2. Rise and fall of Neoliberalism in Mexico: lights and shadows

Neoliberalism is a "slippery, shifting concept" (Rodrik, 2017). Harvey sees it as: "a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms … strong private property rights, free markets, and free trade… State interventions in markets … must be kept to a bare minimum" because it can't outperform the private sector and may be coopted by vested interests. He adds that "neoliberal states … favor the … solvency of financial institutions over the well-being of the population or environmental quality." On social protection, their emphasis is on "individual responsibility and not on universal safety nets."

Neoliberalism had gained presence in Mexico already in the 1930s and 1940s due to the concerted efforts of a certain elite sector that began to form ties with Von Mises, Hayek and the Mont Pélerin Society. Intellectuals and politicians in alliance with powerful businessmen began to disseminate the main ideas of the Austrian School with the political objective of eventually shifting Mexico´s economic policy away from President Lázaro Cárdenas´ developmentalist agenda towards Neoliberalism. (See Romero Sotelo, 2018, the best reference on this topic).

They built prestigious academic institutions – Instituto Cultural Ludwig von Mises, Instituto Tecnológico Autónomo de México inter alia - to train young students in the merits of free market economies. With such ideological, theoretical and political affinities, they would join the civil service and reach positions to enable a shift of the policy agenda towards Neoliberalism. The political project reached its goal in the early 1980s when, in the aftermath of a balance of payments and fiscal crisis, President De la Madrid (1982-88) took office. His administration soon brought about an abrupt shift in the development agenda by launching a series of radical market reforms. This market-reform agenda continued and was even strengthened over the next four decades.

From De la Madrid to Peña Nieto: the remains of the (Neoliberal) day. From early 1980s to 2018 Neoliberalism marked Mexico´s economic policies. What did it achieve? There are bright spots on the macroeconomic stabilization front and on export´s dynamism. But there are shadows too, as it failed to ignite a phase of high and sustained growth, or a major reduction in inequality and poverty. Indeed, Neoliberal policies stabilized inflation around a 3% annual rate of expansion of the consumer price index, and constrained the fiscal deficit to not more than 3% of GDP. And exports gained enormous dynamism, changing their composition. In 1980, oil accounted for 85% or more of total export revenues. By the late 1990s, and helped by NAFTA, manufactured goods accounted for 80% or more.

However, the Mexican economy remained stuck on a low-growth trajectory. With an annual average rate of expansion of real GDP below 2.5% from 1985 to 2018, in per capita terms it continually lagged behind that of the United States. In fact, in this period, Mexico was one of the slower growing economies in Latin America as its exports failed to pull the rest of the economy into a dynamic path. Total investment as a share of GDP remained below 25% as the contraction of public investment was not accompanied by a surge of private investment. Most worrying, in 2016 approximately 50% of the population was poor; 20% extremely poor. GINI coefficients, calculated with data from income tax returns, indicate an increase in inequality in the last decade to levels above 0.60 (Leyva and Bustos 2016, Esquivel 2015). According to the National Council for the Evaluation of Social Policy (CONEVAL), 80% of Mexicans live in conditions of poverty or social vulnerability. The country ranks among the worst worldwide in term of intergenerational mobility (CEEY, 2019), and violence has been increasing to acute levels. Such dismal economic performance coupled with blatant corruption go a long way in explain the overwhelming victory of AMLO in the elections of 2018, after two failed attempts.

3. The sound and fury of the new dawn

AMLO won the Presidency with a political discourse fiercely opposed to Neoliberalism and corruption. He repeatedly pointed to these two phenomena as the roots of Mexico´s lackluster economic and social performance. His declaration of the demise of Neoliberalism in Mexico makes it necessary to identify his new policies and to analyze their rationale, tools, objectives, and expected impact in comparison to the previous neoliberal ones. In terms of policy, a key mark of Neoliberalism is that nominal stabilization - understood as low and stable inflation and a small fiscal balance (preferably close to zero) is a necessary and sufficient condition for economic growth. Other ones are its reliance on inflation targeting to keep prices under control and its belief that industrial policies and minimum wages are at best inefficient policy tools. The following paragraphs examine how much the new government´s policies differ from the neoliberal guidelines.

3.1 Fiscal policy. In AMLO´s speeches on economic policy as in the main policy documents prepared by the Secretary of Finance (SHCP)[1] the *leitmotif* has been that the whole operation of the public sector will be subject to strict Austerity. More explicitly, this means that all government´s policies and actions will be bound by the following constraints: i) there will not be any fiscal reform in the first three years of the administration, ii) fiscal revenue will not increase either in 2019 or in 2020 as a proportion of GDP, iii) In this period, the public sector will not incur in additional indebtedness. In other words, the implementation of AMLO´s proposed social and economic programs will strictly depend on the availability of public revenues subject to the strict constraint of no additional resources through more debt or any tax reform.

By adopting such strict Austerity as a guideline, the new administration imposes acute limits on the possibility of strengthening and modernizing infrastructure, of applying tax policies to reduce income inequality or strengthen its capacity to act in a countercyclical way, not to mention to alleviate major lags in the socioeconomic conditions of the poor population. Recall that, as systematically underlined by the IMF, the OECD, the World Bank, ECLAC, UNAM, CEEY, and many others local think tanks, Mexico´s tax revenues as a proportion of GDP are extremely low; very similar to that of Central America and at least six percentage points short of what is needed to meet long-standing needs in infrastructure, health and education, and overall social security and protection concerns.

According to the SHCP´s General Preliminary Criteria for Economic Policy (GCEP2020) - its latest report on the fiscal and growth projections for the Mexican economy - real GDP is forecast to expand 1.6% in 2019 and 1.9% in 2020, a downward revision from their recent figures of 2.0% and 2.6%. Inflation will remain low and rather stable, 3.4% in 2019 and 3.0% in 2020; as well as the interest rate (8.0% in 2019 and 7.8% in 2020). The nominal exchange rate vis-à-vis the US dollar will average 19.50 pesos this year and 20.0 the following one.

The commitment to an extremely austere fiscal policy is reflected in the projected figures for public expenditure, revenues and the overall financial requirements of the public sector. Indeed, as stated in the GCEP2020, the fiscal authorities aim to keep the stock of the public sector financial requirements during the whole *Sexenio* at a level very close to 45% of GDP. To do so it plans to increase the primary fiscal surplus (excluding interest payments) from 0.7% in 2018 to 1% in 2019 and 1.3% in 2020. Such fiscal tightening is to be achieved by a systematic slash of public expenditure: from 23.7% of GDP in 2018, to 23.2% in 2019, 22.6% in 2020 and 22.2% in 2021 (Provencio, 2019). The contraction will affect its gross fixed capital formation, projected to drop from 2.7% of GDP in 2018 to 2.0% in 2021. Most problematic, from a growth perspective, for the whole six years the SHCP is projecting an average annual rise of only 0.7% of public expenditure in real terms; this is totally insufficient (GNCD, 2019; CIEP 2019).

Such austerity is to be accompanied by a significant change in the composition of public expenditure, in order to accommodate the top priority projects of the government, among them Building a Future with the Youth (an ambitious massive transfer program of 180 dollars per capita to support an apprentice program for up to 2.3 million youngsters), *Seeding Lives* (planting a million trees), *Elderly Adults* and - on the investment side - the *Maya Train*, the crude oil refinery in Dos Bocas and a new airport in Santa Lucia. To fund these major new projects in the context of a tightly constrained budget, the government has cut numerous programs and projects of the previous administration,[2] reduced the bureaucratic apparatus in practically all Secretariats including the sacking of a considerable number of employees, slashed wages in the public sector, and elimination of various public entities like PROMEXICO (in charge of attracting foreign investment to Mexico) and the National Council for Tourism (to promote foreign tourism) *inter alia*.

On the future of PEMEX and of CFE (the oil and electricity enterprises of the public sector), the new government has strongly voiced its intention to give them a much more prominent role in the allocation of resources. This runs contrary to the strategy of Peña Nieto who aimed to dwarf their influence in the corresponding markets relative to the private sector. The new government has not prohibited or cancelled their association with foreign or domestic private firms, but has applied measures to cool them off.

One major concern with the reduction of the bureaucratic apparatus and wage cuts in the public sector is the lack or unavailability of a formal analysis of the implications of such cuts in terms of the efficiency, efficacy and scope of the operations of the public sector, or an evaluation of the performance of the entities being shut down, like PROMEXICO, for example. Such an analysis is vital for gauging the costs and benefits of such an acute downsizing of the public sector. Another concern requiring analysis is the experience of some Latin American countries where the contraction of real wages in the public sector has led to a significant downgrade of its, say, human capital relative to that of the private sector. Finally, implementing such cuts in expenditure will slowdown domestic demand; an effect particularly unwanted today in Mexico, the first year of a new administration and in a context where foreign demand is weakening.

It is difficult not to compare such a drastic, across the board, slashing of public expenditure and the associated increase in the primary fiscal surplus with the contractionary macroeconomic stabilization packages typically backed by the IMF in developing countries. A major difference is that such packages were implemented by need - in the midst of acute balance of payments crisis - and not by choice as in Mexico today in the absence of adverse external shocks.

A likely rationale for Mexico´s current fiscal austerity. A paradox is that the new government chose to commit itself to a severely austere budget, reflected in increasingly higher primary fiscal surplus. Why did it choose such route instead of carrying out a fiscal reform now, not three years from today? The answer is rooted in political not economic considerations. Recall that the austere fiscal stance has been backed by AMLO on two grounds. The first is his belief that a significant amount of resources can be freed by abating the rampant corruption. The second, not voiced by him, is that to eventually implement a fiscal reform, the government must prove to the citizens that the public sector can deliver efficiently, effectively and with honesty. The rationale is that such proof will give legitimate grounds to later implement a progressive and profound fiscal reform that he has actually promised for the second half of his administration. Will it succeed given such a self-imposed acutely tight budget constraint? Will its achievements suffice to convince the middle and upper classes to accept a progressive fiscal reform, three years from now? These are open questions whose answer will determine Mexico´s economic growth path and progress in the reduction of inequality and poverty, and perhaps too its social stability and the viability of its democracy.

3.2 Monetary and financial policy. Alejandro Diaz de León, Governor of the Central Bank, in his opening remarks at the National Convention of Bankers this March, meticulously described the current scope, instruments and objectives of monetary policy today. As he put it, such policy under the present administration is identical to the one applied since Vicente Fox (2000-06). He stated that the Central Bank must continue to be autonomous.[3] Actually López Obrador, in various important speeches, has stated that his government values and will respect the autonomy of Banco de México. As Diaz de León stressed, Banco de Mexico has one main priority: to keep inflation down. He shared his belief that monetary policy affects the long-term trajectory of inflation, but not the long-term rate growth of economic activity or of employment. He added that since 2001 Banco de México follows a policy of "inflation targeting" aimed at an annual inflation rate of 3% with a one percentage point margin of variation; allowing ample room for nominal exchange rate flotation to face balance of payments pressures.

The only modification to monetary policy implemented since López Obrador took office was the launch of an electronic platform (*Cobro Digital or CoDi*), to foster financial inclusion by enabling anyone with a cell phone to make or receive any day any hour monetary payments into accounts digitally accessed. A contentious theme floating in this Convention was the excessively high fees charged by the commercial banking system and a proposal by the Senate to issue legal rules and regulations to cap them. Interestingly and surprisingly, given his constant diatribe against the free operation of market mechanisms, in the same Convention the President declared his opposition to the Senate´s proposal. Instead he voiced his belief that greater competition amongst banks would cut fees to more reasonable levels. In brief, the instruments and objectives of monetary policy have not changed.

3.3 Labor reform, commercial and industrial policy. The new administration brought about important changes to labor market dynamics and institutions. First, it raised the minimum wage by 15%, bringing it up to a level whereby it might cover the very basic basket of goods and services. In federal entities at the border with the US, in an attempt to boost the region´s competitiveness, minimum wages were doubled *pari passu* with a reduction of VAT and IRS for firms with a minimum of two years operating in that region. The other priority program of the Secretary of the Economy so far is a major initiative to provide microcredits to SMEs.

In spite of Trump´s constant verbal attacks and commercial and migratory threats, López Obrador has ratified his commitment to keep an open economy and everything that may be needed to continue the special trade relation with its northern neighbors. In fact, he has repeatedly stated that his government looks forward to the signing of the USMCA (United States Mexico Canada Agreement), a product of the renegotiation of NAFTA. In part linked to this, he has also backed the proposal for a significant reform to modernize labor relations currently being discussed, and most likely approved, in the Mexican Senate. This reform will radically change Mexico´s rules, regulations and laws on trade union creation, membership, operation, and conflict resolution procedures to make them compatible with ILO´s standards. Interestingly, the reform echoes the demands and pressure from the TPP, the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) - the largest federation of unions in the United States -, Trump´s negotiators for NAFTA/USMCA and the United States Democratic Party. Thus, the most progressive modification of domestic labor relations put forward by the new government is well aligned with the interests, not only of Mexico´s working class, but also of the United States´ trade protection forces.

3.4 Selected aspects of social policy. Although lip service has been paid to the idea of building a universal social protection and security system, so far we have yet to see actions or policies in that direction. At the time of writing, the new government´s social policy may be characterized by the launch of a number of programs to transfer funds to certain sectors of the population, replacing the conditional cash transfer programs of the Neoliberal era. It is unclear whether these new transfer programs will be more efficient and effective than the previous ones in reducing inequality and poverty, promoting decent job creation, or fostering upward mobility at regional or national levels. The intention must surely be in that direction, but their target population, their beneficiaries, are not the same as before. So far, some of the new important transfer programs, do not have their beneficiaries selected according to poverty criteria. In particular, the most relevant one *Building a Future with the Youth* aims at youngsters that neither work nor study; not putting special attention to their income level. Another potential challenge of this important program is that it was fully launched with no pilot testing.

The President has voiced his strong preference to provide monetary support directly to the ultimate beneficiaries, and not indirectly through private intermediaries or NGOs. The rationale behind this is that by short-circuiting them, there are fewer possibilities of corruption and no resources are lost in administration fees. Perhaps. Still there is considerable debate on the overall impact of such operational change on the welfare of the beneficiaries. After all, the impact of such money transfers depends on their use by the beneficiaries. Such schemes, strangely enough, reminds us of the proposal of private vouchers - associated with Milton Friedman - advocated on the idea to give more room to the private sector´s freedom of choice.

4. Recommendations and conclusions.

Only five minutes have elapsed of the, say, soccer match being played by the Mexican economy under the direction of its new President. The analysis of the strategy and the actions implemented so far leads to suggest the inclusion of a number of key policy-players soon into action. Otherwise, the rest of the match may be very complicated and runs the risk of having a disappointing result.

The first is a mid-field player: a profound fiscal reform to foster growth and equality with long-term debt sustainability. The reform would have to meet the following challenges. It must: i) significantly strengthen public revenues, ii) modernize the national system of public investment in order that it is capable to monitor effective and efficiently a new wave of public investment projects (in order to raise its fixed capital formation in three points of GDP), iii) reduce income inequality, and 4) strengthen its countercyclical capacity.

A second player that must enter to boost the competitiveness and growth potential of the Mexican economy is an active industrial-innovation and technological policy coupled with a number of modern development/policy banks (See Dutrenit and Puchet). Even the IMF, acknowledging the vast literature on the merits of industrial policy, recently admitted that such policy is a useful development tool, as long as it entails: “(i) the support of domestic producers in sophisticated industries, beyond the initial comparative advantage; (ii) export orientation; and (iii) the pursuit of fierce competition with strict accountability.” As the Fund recognizes, the success of Asian economies is the “outcome of the implementation of an ambitious technology and innovation policy over decades that kept adapting to changing conditions and moving to the next level of sophistication. The state set ambitious goals, managed to adapt fast, and imposed accountability for its support to industries and firms”.

In the case of Mexico, such policy goals must *a fortiori* be well aligned with environmental concerns, with for example a green pact in the context of an energy transition strategy for sustainable development. Setting ambitious goals on matters of structural transformation based on technology and innovation plus strengthening the relevant institutions and implementing the policies to reach them would be a most welcome addition to the new government´s agenda. Mexico already has two, once important but now weakened, development banks: NAFINSA and BANCOMEXT. The administration should revitalize and make them, in the Asian model, policy banks. Mexico´s commercial banking system blatantly fails to meet the intermediation needs inherent to finance the fixed capital formation -infrastructure, plants and equipment- to boost the economy´s growth potential. Long-term funds, venture capital, to finance new enterprises seeking competitive advantage based on innovation and technology are in dire want.

The third player to be included, to improve the safety (net), is a universal social protection system to guarantee everyone timely and available access to, and quality provision of, health and social security services, from cradle to grave. In the build-up of such universal system, special priority should be given to the reduction of welfare gaps - *inter alia*, regional and gender-wise - that have most impact on inequality and poverty. Such a system, instead of a multiplication of cash or in-kind transfers, would do wonders to advance Mexico´s path towards a true Welfare State. Finally, a brief comment on corruption. First of all, it should be always kept in mind that it is rooted in the public sector as much as in the private sector. Stealing, cheating, evading rules, regulations and legally binding directives happen in both sectors, and in their interactions. On April 12th in an interview with Jorge Ramos, López Obrador said that under his administration corruption has been eliminated (Suárez, 2019). For this personal opinion of the President to become a fact, the new government and the civil society have first to beat impunity.

Undoubtedly the remaining 85 minutes of the match will evidence major changes in Mexico´s development and macroeconomic strategy and performance. Hopefully we will begin to see them well before half-time. But, without the key players identified above, and independently of whether the national shirt is colored as anti-neoliberal, post neoliberal, heterodox, “*la neta del planeta*”, burgundy or red, the economic and social policy team will again fail; a failure that may cost our society and, perhaps, even our democracy, dearly.

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1. So far the key strategic policy documents of the government are those linked to the budget for 2019 and the preliminary projections for the budget of 2020 and their corresponding macroeconomic projections and policies to be applied, known as General Preliminary Criteria for Economic Policy 2020, here referred to as GCEP2020. (See SHCP, 2019a and 2019b).
2. A most notorious and controversial one was the cancellation of the ongoing construction of the New Airport of Mexico City, in Texcoco. Such a move had an adverse effect on business climate and investment prospects of the (foreign and domestic) entrepreneurial communities. It also hit public finance with obligations on debt repayments and compensation penalties for non-completion.
3. The Constitutional reform of 1993 gave administrative and functional autonomy to *Banco de México*, and established as its main objective to preserve the purchasing power of the local currency. It added two more functions: i) promote the healthy development of the financial sector, and ii) preserve the well-functioning of the payments system.

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