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Calderon Names IMF Official Carstens to Head Economic Policy Team

by LADB Staff

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Augustin Carstens, who recently held the number-three post at the International Monetary Fund (IMF), has agreed to coordinate President-elect Felipe Calderon's economic-policy team. Carstens is now considered the most likely candidate to succeed Francisco Gil Diaz as head of the Secretaria de Hacienda y Credito Publico (SHCP).

Calderon has said he plans to announce his Cabinet choices on the morning of his inauguration, Dec. 1. Carstens' decision to join the Calderon team represents a change of heart for the economist. A few weeks ago, when asked about the possibility of returning to Mexico, he said he intended to keep his position at the IMF until 2008. "When I came here in 2003, my intention was to serve for five years," Carstens said after agreeing to accept the economic-policy position. "Because of this, I reluctantly leave my post, so I can devote my energies to the service of my country."

Analysts said the timing of Carstens' decision was important because the Calderon team wanted to have major input on the 2007 budget, which Congress is about to consider. "The new budget would have to incorporate the campaign promises made by Calderon, including fiscal reform and job creation," said Maricarmen Cortes, a columnist for the Mexico City daily newspaper *El Economista*.

In announcing the decision to bring Carstens to his economic team, Calderon emphasized that combating poverty would remain a high priority. "Even though macroeconomic stability and competitiveness are necessary conditions for an efficient economy, the marketplace by itself is not sufficient to create an economy that is truly human in nature," said the president-elect. "Dr. Carstens knows this very well, and that is why he is committed to working for the country and toward an international cooperation that will emphasize development."

Appointment receives mixed reaction

Carstens' appointment received a generally positive reaction from academics and economists, although some critics said the new economic-policy coordinator would continue the neoliberal policies that have expanded the gap between the rich and poor in Mexico during the past decade.

"Carstens' credentials are huge. He is an economist with ample experience, knowledge of the public sector, monetary policy, and the financial sector," said respected economic analyst Isaac Katz of the Instituto Tecnologico Autonomo de Mexico (ITAM). "He has a solid economic foundation, experience in the finance secretariat, and has strong credentials to promote reforms."

Similar comments came from others in the business sector. Victor Manuel Herrera, director of Standard & Poor's Mexico, noted that Carstens represents "continuity of macroeconomic stability" for Mexico. Claudio X. Gonzalez, president of the Centro de Estudios Economicos del Sector Privado

(CEESP), said Carstens is a "very competent economist with national and international experience and strong capacity for negotiation."

And Cuauhtemoc Martinez, president of the Camara Nacional de la Industria de Transformacion (CANACINTRA), said Carstens' contacts with important people overseas would benefit Mexico. "He is a person with experience, good ideas, and a wide perspective," said Martinez. "His relationship with the IMF could be used to benefit our country."

While Carstens was being showered with praise by the business sector, others expressed concern about his connections to the IMF and the neoliberal economic model that has been in Mexico for about two decades. Julio Hernandez Lopez, a columnist for the Mexico City daily newspaper *La Jornada*, said the economic philosophy espoused by Carstens "guarantees another six years of an economy that created extreme wealth and extreme poverty." He said it is not surprising that the business community came out so strongly in support of Carstens. "Tell me who is cheering for you, and I will tell you who will be benefiting the most from your positions," said Hernandez.

Similar comments came from Francisco Hernandez Juarez, president of the independent labor organization Union Nacional de Trabajadores (UNT). He disputed statements from the business sector that Carstens, if selected to head the SHCP, would promote stability, growth, and job creation. "The president-elect's economic program not only continues the policies that expand the gap between the poor and the rich, but it will be headed by someone who is very close to the IMF," said the union leader.

Criticism also came from the center-left Partido de la Revolucion Democratica (PRD), which said Carstens is part of the same group of neoliberal officials that has managed Mexico's economic policies since the administration of Carlos Salinas de Gortari, including former and current finance ministers Pedro Aspe, Jaime Serra Puche, and Francisco Gil Diaz. "They have inflicted a high social cost on our country," said outgoing Mexico City Mayor Alejandro Encinas.

There was no immediate reaction from PRD presidential candidate Andres Manuel Lopez Obrador, who lost the July 2 election to Calderon by an extremely tight margin (see SourceMex, 2006-07-12 and 2006-08-30).

Economist Rogelio Ramirez de la O, Lopez Obrador's chief economic advisor during the presidential campaign, praised Carstens. "He is a good technician and is probably the best of the options that had been mentioned," said Ramirez de la O, who was in line to become finance secretary if Lopez Obrador had won the election.

In a radio interview, Ramirez de la O clarified that his position was personal and did not reflect Lopez Obrador's opinion regarding Carstens. "I think people clearly know where I stand [on economic policy,]" he said.

Lopez Obrador, who has said he would form a parallel government, is planning to announce his own "cabinet" in November. It is not clear whether Ramirez de la O would accept or be offered a position similar to finance secretary.

Carstens vows to reduce dependence on oil revenues

While Calderon plans to continue the general economic policies of his three predecessors, the president-elect is going to attempt some changes, such as placing a higher priority on reducing poverty and weaning Mexico away from its dependence on oil-export revenues. "We have benefited a lot from high oil prices in the last three years, that has generated a good, fast spending flow," Carstens said in an interview on the Televisa network. "I hope we don't have to bring this car to a halt later if oil prices fall."

Some economists say Carstens, who served as deputy finance secretary before his appointment to the IMF, will also try to move Mexico away from relying excessively on foreign debt, which was responsible for the devaluations of 1976, 1982, 1987, and 1994. "The skeletons in the closet are not going to catch Carstens by surprise," said Enrique Quintana, a financial columnist for the Mexico City daily newspaper Reforma. "He already knows them well." Carstens is also expected to try to push through a tax-reform plan, which is important if Mexico is going to reduce its reliance on oil-export revenues. "[Tax reform] is necessary and essential," Carstens said recently.

Private sector offers tax-reform proposals

Some business organizations, such as the Consejo Coordinador Empresarial (CCE), are pushing for the Congress to embrace the commitments made during a tax-reform convention (Convencion Nacional Hacendaria, CNH), which was supported by the administration, the political parties, and the governors (see SourceMex, 2004-02-11). The CNH sent recommendations to Congress in August 2004 (see SourceMex, 2004-08-25), but these were never implemented.

Some analysts say President Vicente Fox's administration failed to push through the tax-reform plan because the Cabinet minister in charge of the effort was then interior secretary Santiago Creel, and not Finance Secretary Gil Diaz. "Creel was driven by political ambition," said El Economista columnist Cortes, in reference to Creel's failed bid to gain the presidential nomination of the Partido Accion Nacional (PAN).

Calderon defeated Creel handily for the PAN nomination (see SourceMex, 2005-10-26). One of the principal proposals offered by the CCE was to incorporate the informal economy into the tax rolls. "We do not necessarily need to increase taxes, just increase the tax base," said CCE President Jose Luis Barraza. Barraza did not mention another more-serious problem with Mexico's tax system, which is the high rate of tax evasion and avoidance.

The World Bank estimates Mexico's tax-collection rate in recent years at 12% to 15% of GDP, one of the lowest rates of tax collections in Latin America. The problem may have worsened during Fox's six-year term, when tax collections declined to less than 11% of GDP, the SHCP acknowledged.

Some members of Calderon's conservative PAN and the opposition Partido Revolucionario Institucional (PRI) are also expected to push for a value-added tax (impuesto al valor agregado, IVA) on food and medicines. Calderon is not expected to embrace this tax, however, because it could undermine his efforts to fight poverty.

The PRD, a faction of the PRI, and some smaller parties are expected to resist any efforts to impose a tax on food. Ex-finance secretary Jose Angel Gurria Trevino is among those who are skeptical that an IVA on food and medicines would do much to help Mexico's tax situation. "There are countries with lower IVA rates than ours, but they have a higher rate of tax collection," said Gurria, who is the director of the Organization for Economic Cooperation and Development (OECD). These countries, he said, have viable tax systems because they don't have as many loopholes and exceptions, which limit tax collection.

Calderon's economic policy emphasizes environmental protection

Calderon is also expected to place a high priority on sustainable development, linking economic development to environmental protection. To coordinate that effort, he has named Mario Molina, winner of the Nobel Prize in chemistry.

"The deterioration of the environment has a negative impact on the economy," Calderon said in a position paper. "To prevent environmental degradation, all our investment policies and decisions will have to consider the impact on the environment and the rational use of resources."

The paper said Mexico has to impose a system of "economic valuation" for its natural resources...supporting the owners of forests and jungles and promoting policies for the comprehensive and sustainable management of water."

Molina will be working with a team of eight experts, who are knowledgeable about maritime issues, water conservation, and protection of natural environments. The group will discuss ways to promote energy and water conservation, reduce air and water pollution, and address problems such as inadequate disposal of toxic waste. Among other things, the group will propose ways to strengthen the enforcement and regulatory powers of the Comision Nacional del Agua (CNA), the Procuraduria Federal de Proteccion al Medio Ambiente (PROFEPA), and other agencies that deal with environmental matters, said the daily Mexico City newspaper Excelsior.

The list of experts includes: Gabriel Quadri de la Torre, who once led the Centro de Estudios del Sector Privado para el Desarrollo Sustentable (CESPEDES); Roberto Olivares, executive director of the Asociacion Nacional de Empresas de Agua y Saneamiento (ANEAS); Ernesto Christian Enkerlin Hoeflich, director of the Comision Nacional de Areas naturales Protegidas (CONANP); Alejandro Robles Gonzalez, director of Noroeste Sustentable; Hugo Contreras, director of Bal Ondeo, a subsidiary of Grupo Penoles; Martin Gutierrez Lacayo, of the Proyecto Mecanismos para la Conservacion de la Biodiversidad en Tierras Privadas en Mexico; Cassio Luiselli, director of environmental studies at the University of South Africa; and Eugenio Clariond, a Mexican representative on the World Council for Sustainable Development.

Diana Perez, a columnist for Excelsior, said some members of the group, such as Quadri de la Torre and Enkerlin Hoeflich, are strong candidates for the post of environment secretary.

Rumors circulate about other Cabinet posts

Speculation is also rampant about other possible Cabinet appointments. According to one rumor, Calderon's campaign coordinator Josefina Vazquez Mota could be in line to be the first woman to

head the Interior Secretariat (Secretaria de Gobernacion, SEGOB). The interior secretary is often considered the second-most-powerful post in the administration. Vazquez Mota served as social development secretary under Fox, but left the post in early 2006 to coordinate Calderon's campaign (see SourceMex, 2006-01-11).

There is talk that the post of foreign relations secretary could go to Arturo Sarukhan Casamitjana, who was Calderon's chief spokesperson overseas, especially in the US, during the presidential campaign and its aftermath. The president-elect is also expected to appoint individuals outside the PAN to Cabinet posts, including members of the PRI and the PRD.

"Perhaps he will invite members of civil society to take charge of the posts that address human needs," said Alfonso Zarate, a columnist for the weekly business magazine Expansion. "I'm talking about people who are not affiliated with any party such as political analysts Maria Amparo Casar or Jose Woldenberg or diplomats like Andres Rozental." (Sources: Revista Expansion, 07/06; The Herald-Mexico City, 09/07/06; Agencia de noticias Proceso, 09/20/06, 09/21/06, 10/16/06; Bloomberg news service, 10/16/06; Reuters, 10/16/06, 10/17/06; El Universal, 10/17/06, 10/18/06; El Economista, 10/03/06, 10/17/06, 10/19/06, 10/20/06; Excelsior, 10/05/06, 10/17-20/06; El Financiero, 10/07/06, 10/17/06, 10/23/06; La Cronica de Hoy, 10/17/06, 10/18/06, 10/23/06; Milenio Diario, 10/17-19/06, 10/23/06; La Jornada, 10/05/06, 10/17/06, 10/18/06, 10/24/06)

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