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## **Nobel Economist Riles President Felipe Calderon's Administration With Criticism Of Economic Policies**

*by LADB Staff*

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Nobel Prize-winning economist Joseph Stiglitz ruffled the feathers of President Felipe Calderon's administration when he questioned the government's strategies for managing the recent economic crisis. Stiglitz, who was part of a three-person team that won the Nobel Memorial Prize in Economic Sciences in 2001, told participants at the ExpoManagement conference in Mexico City on Nov. 18 that faulty economic planning resulted in a very poor performance for the Mexican economy during the past year. Administration officials, including Finance Secretary Agustin Carstens, responded indignantly to Stiglitz's assessments, saying that the economist failed to look at the big picture.

The comments are especially bothersome to an administration that recently declared that Mexico has "emerged from its recession." Another Nobel Prize winner who attended the ExpoManagement conference, Muhammad Yunus, also criticized an aspect of Mexico's economic strategies. He said the government has not done enough to promote microloans, which could help reduce poverty. Stiglitz questions Mexico's fiscal strategy, reliance on US Stiglitz told conference participants that Mexico's economic performance has been one of the worst in the world because of a poor fiscal strategy that provides little stimulus to the Mexican economy. "The growth statistics have been very weak and pessimistic for this country," said Stiglitz, a professor at Columbia University.

Mexico's GDP is expected to contract by 6% to 7% in 2009. The economist said the Calderon administration's programs to address the crisis were very limited and not implemented quickly, compared with stimulus packages employed by countries like Australia, Canada, Brazil, India, and China. Stiglitz also suggested that Mexico has failed to significantly reduce its reliance on the US economy, and a weak recovery in the US contributed to its poor economic performance. "Some people in Mexico are betting on a recovery in the US as a central point of their economic strategy," said Stiglitz. "But Mexico has to start thinking of an alternative strategy because the current one perhaps is not the best one." Stiglitz said concerns about Mexico's overreliance on the US economy are magnified by uncertainty about the US recovery in the next two years. "It is probable that growth will not be robust in 2010," said the economist.

Beyond next year, there is uncertainty about 2011, when the stimulus funds approved by the US Congress are exhausted. He said Brazil and other Latin American countries have weathered the crisis because their economies are not so reliant on the US. "Many countries have diversified their export base and have strengthened their trade relations with Asia," noted Stiglitz. "And the recovery in Asia is helping with the recovery in Latin America." Another important factor in the recovery in many of those countries has been the decision to better regulate their financial markets. For example, he said that Brazil protected itself by imposing taxes on external capital and on financial transactions. He noted that Brazil is in the midst of an economic recovery and is experiencing better capital flows.

Stiglitz said Mexico's inadequate bank regulations have contributed to slow development in the country. In particular, he said, Mexico has lacked the capability to provide financing to small and medium-sized businesses to allow them to become involved in international trade. "Investment in technology, education, and infrastructure help stimulate development and economic growth in the short and long term," said the economist. Stiglitz not only criticized the Mexican government's failings during the crisis but also suggested that proposals to impose a value-added tax (impuesto al valor agregado, IVA) on food were ill-advised. "An increase of the IVA on food would have a very negative effect on the economy," said Stiglitz. Proposals to impose an IVA on food and medicines come up frequently when the Mexican Congress considers the revenues budget every year, but they are discarded because they are politically unpopular.

In lieu of the IVA on food, the Calderon government proposed a 2% tax across the board on consumption for the 2010 budget (SourceMex, September 16, 2009). The Congress discarded Calderon's proposal in favor of more targeted taxes (SourceMex, November 04, 2009 and November 18, 2009). Muhammad Yunus, who won the Nobel Peace Prize in 2006, also spoke at the ExpoManagement conference. He cited the need for Mexico to invest more resources in microlending. "Until now, Mexico has had only weak and poorly funded projects," said Yunus, who has gained wide recognition for creating a model of microlending that is widely used globally to address poverty.

Yunus is the founder and director of the Grameen Bank in Bangladesh, an institution that is commonly cited when microlending is discussed. "Financial institutions have to become more inclusive," said Yunus. "They have to promote the creation of opportunities, particularly at times when jobs have been lost." Administration takes issue with Stiglitz's assessment But it was not Yunus' comments that attracted the attention of the Mexican government, and Calderon-administration officials wasted no time in responding to Stiglitz's criticisms.

Social Development Secretary Ernesto Cordero recommended that Stiglitz take time to learn more about the circumstances surrounding Mexico's economic decisions. "[Stiglitz does not know the details of the countercyclical policies that the Mexican government implemented," said Cordero. "He doesn't know about Mexico's public finances. I recommend that he take the time to learn more about Mexico." Carstens was just as direct regarding Stiglitz's conclusions. Speaking at a forum with international investors in New York, the finance secretary said that Stiglitz failed to take into account in his assessments that the economic downturn was global and not limited to Mexico.

Furthermore, Carstens said other factors affected Mexico, including the decline in oil production. "What [Stiglitz] does not realize is that Mexico suffered a structural blow, and it would have been irresponsible to acquire further debt to address this problem," he said. Carstens also took issue with the economist's assessments on Mexico's fiscal policies. "Stiglitz is mistaken in the belief that the only instrument to promote development is fiscal policy," said the finance secretary. Others like Cesar Nava, president of the governing Partido Accion Nacional (PAN), suggested that Stiglitz left out important factors in his assessment, such as the outbreak of the H1N1 virus in April 2009.

Concerns about the outbreak forced authorities to close schools and businesses for several weeks, halting all economic activity during the period (SourceMex, April 29, 2009 and May 06, 2009). "I

believe that he is not taking into account the full reality about Mexico, particularly the impact of the H1N1 outbreak on tourism and the decline in oil revenues," said Nava. "These are circumstances that no other country in the world experienced to this extent." Former finance secretary Francisco Gil Diaz, who served during the administration of ex-President Vicente Fox, also pointed to the H1N1 outbreak as a major factor behind Mexico's poor economic performance in 2009. "Tourism represents about 10% of Mexico's GDP," said Gil. "During the worst month of the epidemic, tourist activity declined by 80%, and the sector is not yet fully recovered." Gil agreed that Mexico has developed an economic relationship with the US unlike any other country, and the US downturn has hurt Mexico in many ways. "Another aspect that is unique to Mexico is the flow of remittances, which have experienced a sharp decline," said the former finance secretary.

Remittances are the second-most-important source of foreign exchange for Mexico. Because of the downturn in the US economy, remittances from expatriates are expected to decline significantly in 2009, with the totals for the year expected to fall below US\$23 billion (SourceMex, June 03, 2009). October statistics indicated a very negative trend. The Banco de Mexico (central bank) said expatriates sent only about US\$1.7 billion during that month, compared with more than US\$2.6 billion in October 2008. The total for January-October was US\$18.1 billion, down about 16% from the same 10-month period in 2008. Gil also criticized Stiglitz for not considering other socioeconomic factors, such as the negative impact of increased drug-related violence on the Mexican economy.

### *Observers say criticisms are justified*

Despite all the criticisms from the Calderon administration and its supporters, columnists of all political stripes questioned the wisdom of protesting Stiglitz's comments so vigorously. "What the 2001 Nobel Prize winner expressed is simple common sense," wrote *Ciro Gomez Leyva*, a columnist for *Milenio.com*. "The Mexican government handled the economy during the global economic crisis worse than many other countries. Who can object to this simple statement?" An editorial in the Mexico City daily newspaper *La Jornada* offered a similar assessment. "The disqualifications brought forth by Cabinet officials against Stiglitz...are evidence that this administration has no capacity for self-criticism," said the editorial. "It demonstrates the arrogance of the governing administration, a trait that has prevented those in charge of economic policy from addressing the current situation with a minimum of sensibility and realism." *Manuel J. Jauregui*, a columnist for the Mexico City daily newspaper *Reforma*, pointed out that Stiglitz is one the economists who is most cited globally. "His theory of markets with asymmetric information is used as a textbook in the most advanced schools of economics," said *Jauregui*.

The theory deals with the study of decisions where one party has more or better information than the other, which creates an imbalance in transactions. Calderon says Mexico emerging from recession Even as Stiglitz and others were criticizing the Calderon government's management of the economy, the administration produced evidence of what it viewed as a turnaround in Mexico's fortunes. On Nov. 5, President Calderon declared "the end of the economic recession" in Mexico, following the release of data that showed GDP growth of 2.7% during the third quarter of the year. "This result is very good news because it implies that the economic contraction is over," the president told participants at the Bloomberg Economic Forum Mexico 2010. "We are working for this economic recovery to continue and expand in coming years." Some critics said the administration's

pronouncements were premature. Yurira Sierra, a columnist for the Mexico City daily newspaper Excelsior, said the president failed to take into account the impact on the economy of the tax increases scheduled for 2010.

Still, Calderon's optimism coincides with projections from multilateral organizations. At a business conference in Monterrey on Nov. 9, Nicolas Eyzaguirre, director of the Western Hemisphere Department of the International Monetary Fund (IMF), predicted that Mexico would experience GDP growth of 3% in 2010. Speaking at the same conference, Juan Jose Daboud of the World Bank estimated growth of 3.1% next year. Citing a report from the bank, Daboud said Mexico is one of the countries with most potential for development once the current global economic crisis runs its course. But Daboud admitted that statistics for Mexico for all of 2009 would still show lingering effects of the recent downturn. He projected the country's GDP would contract by 6.8% in 2009.

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