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"The 2008-2010 crisis in Mexico in the context of the world crisis and after three decade of neoliberal restructuring"

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INTRODUCTION

The 2008-2010 cyclical crisis in Mexico was the most severe, in terms of its *combined* profundity and length, since the Great Depression. Furthermore, in the context of the world crisis, the Mexican crisis has been one of the most severe worldwide. The reasons of this severity are, on the one hand, the precariousness of the economic model resulting from the *specific* type of neoliberal restructuring implemented in Mexico in the last three decades; on the other hand, the lack of implementation of a comprehensive set of anti-cyclical policies during the progress of the crisis, circumstance which, itself, is basically determined by the structural features of the Mexican economy nowadays.[1]

This paper analyses the Mexican crisis in historical and international perspectives mainly through the evolution of real GDP growth. It also evaluates the structural and short-run causes of its severity, focusing on the specific nature of the neoliberal model imposed in Mexico and on the economic policies, especially monetary, carried out in

[1] It is determined, as well, by the inefficiency of policy makers which, worldwide, is grounded on their ideological subordination to the neoclassical dogma, and, particularly in the case of Mexico, on pure incompetence.

2008-2010. Finally, it discusses the general perspectives of the Mexican economy for the years to come.

1 THE 2008-2010 CRISIS IN A HISTORICAL PERSPECTIVE

The Great Depression in Mexico was characterized, similarly to most of the World, by the linkage of two cyclical crisis (1929-1931 and 1932-1935) that resulted in a long *W-shaped* crisis (Figure 1 registers annual real GDP change since 1922, its cyclical fluctuations and its long-run tendencies)[2]. In the 1929-1930 recession, real GDP's contraction was almost -10% (Figure 2 registers the magnitude and length of recessions since 1929 and the length of following recoveries) [3]. The recovery of 1931 was partial because it was interrupted by one more very strong recession in 1932, the worst year of the Great Depression, when annual GDP decrease was -14.8%. The linkage of these two recessions resulted in an accumulated contraction of GDP of -20.5% between 1928 and 1932. The restoration of the peak level of 1928, which started with the 1933 recovery driven by the initial phase of the import-substitution industrialization, was attained only in 1935, *after 7 years*.

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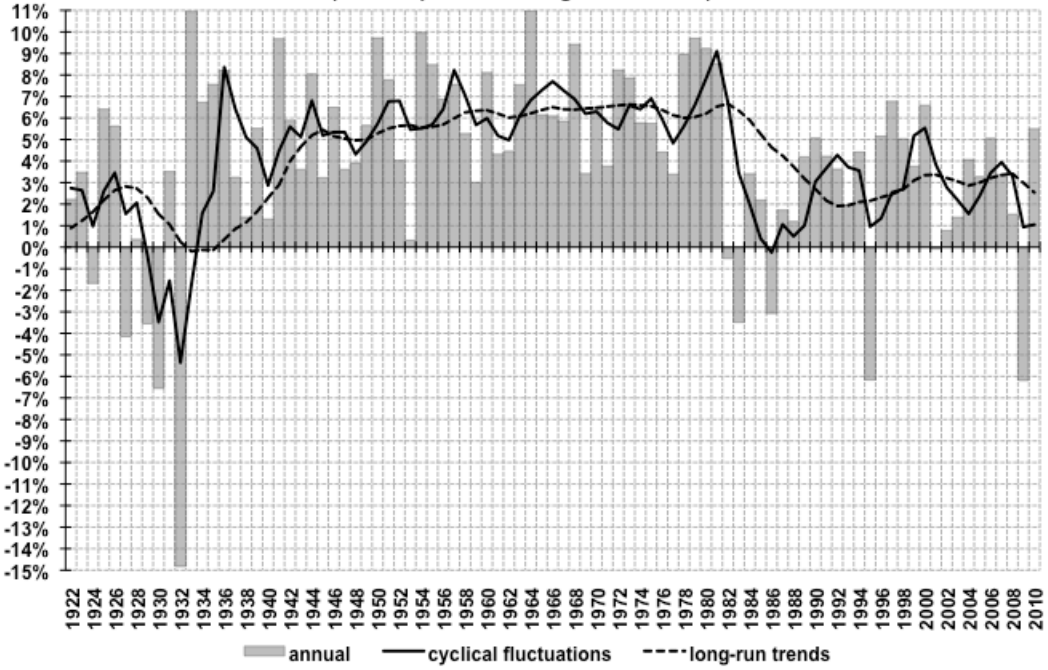
[2] The term crisis is used here to describe the contractive period between a peak of economic activity, in terms only of real GDP, and the restoration of that peak. Therefore, it comprises two phases: recession, in which real GDP growth rates are negative; recovery, in which such rates turn positive.

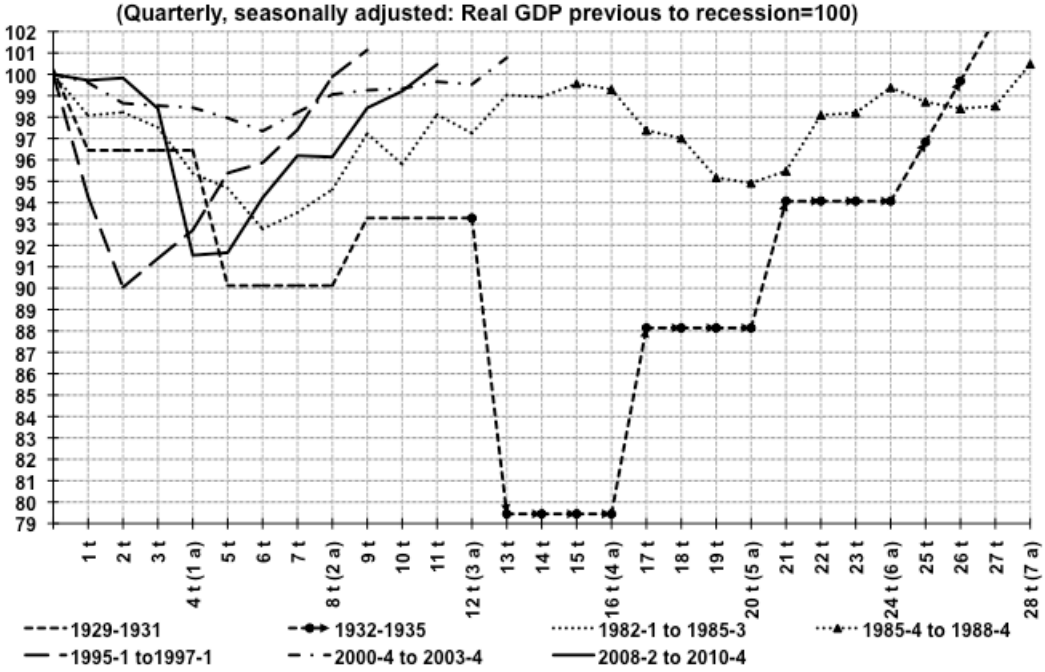
[3] Data is annual up to 1979 as registry of quarterly GDP started in Mexico only in 1980.

Figure 1. MEXICO. 1922-2010: Real GDP growth
(Annual percent change and trends)



Sources: INEGI. Cyclical fluctuations: 4 years moving average of annual data; Long run trends: 10 years moving average of Cyclical estimates.

Figure 2. MEXICO. 1929-2010: Cyclical crisis. Magnitude and length of recessions and their finalization
(Quarterly, seasonally adjusted: Real GDP previous to recession=100)

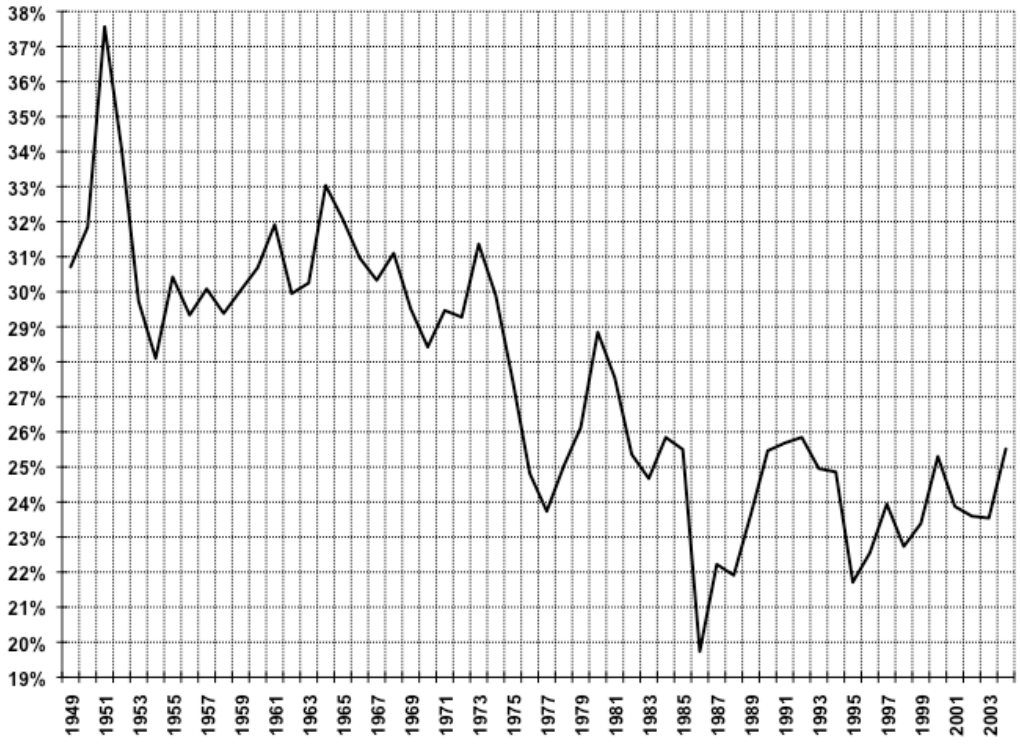


Sources: INEGI.

During the expansive period of almost fifty years that followed the Great Depression, cyclical fluctuations in Mexico never generated absolute declines of annual GDP. This period comprises, in a first phase, the development of a long wave of expansive accumulation and growth developed through an import-substitution industrialization process focused in the internal market (Guillén, 1984): during the Mexican “Miracle”, from 1935 to 1968, the average annual GDP growth was 6.1%. In a second phase, it corresponds with the progressive weakening, firstly, of the expansive long wave, caused by the decline of the general rate of profit since the end of the 1960´s (Mariña and Moseley, 2001; Mariña, 2003) (Figure 3 registers the annual general rate of profit in Mexico in 1949-2004); secondly, of the import-substitution industrialization, ever incomplete because of its dependence on the global strategies of transnational corporations, which included huge imports of capital goods.

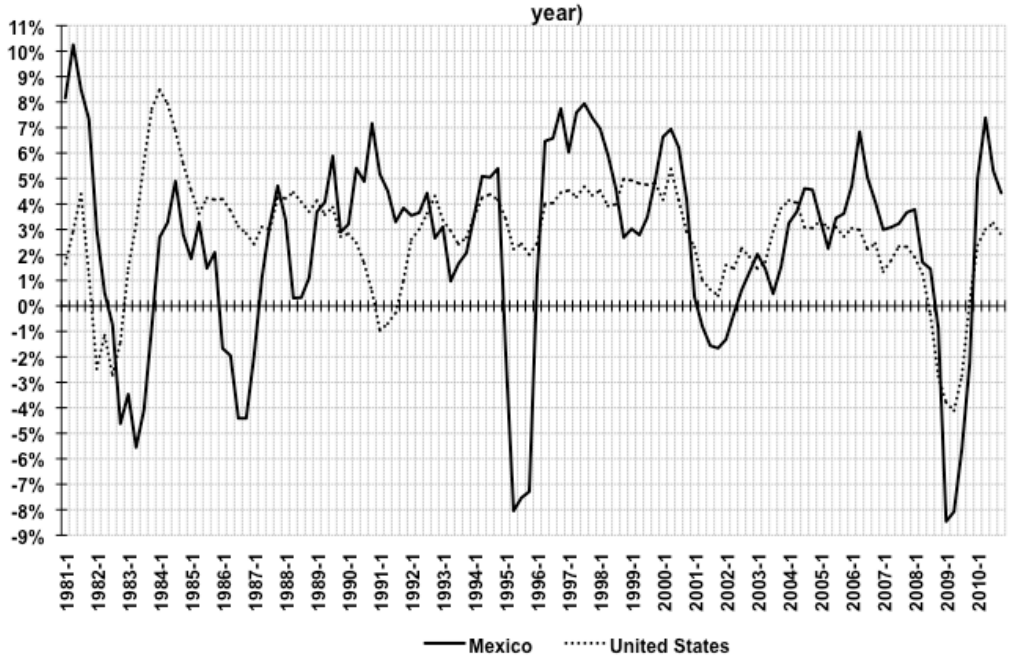
The resulting structural crisis manifested in the 1970´s through increasing instability in GDP growth (especially in 1969-1977, when average real GDP growth averaged 5.4%), inflationary pressures, rising fiscal and commercial deficits, exponential increase of external debt and, finally, two balance of payments crisis: the first one in 1976, with a devaluation that finished with the fixed exchange rate regime that had lasted since 1956; the second one in 1982, which ended the 1977-1981 short oil-boom when average real GDP growth was 9.1% due to a massive increase in external debt and a recovery of the general rate of profit caused by a sharp increase in the rate of surplus value driven by the implementation, following International Monetary Fund (IMF) recommendations, of restrictive wage policies.

Figure 3. MEXICO. 1949-2004: General rate of profit (Annual percent)



Sources: Mariña and Moseley: 2001; updated from INEGI. Numerator: annual flow of profits at current prices; Denominator: reposition value at current prices of gross fixed capital stock.

Figure 4. MEXICO AND UNITED STATES. 1981-2010: Real GDP growth (Quarterly, seasonally adjusted: percent change from same quarter of previous year)



Sources: INEGI and BEA.

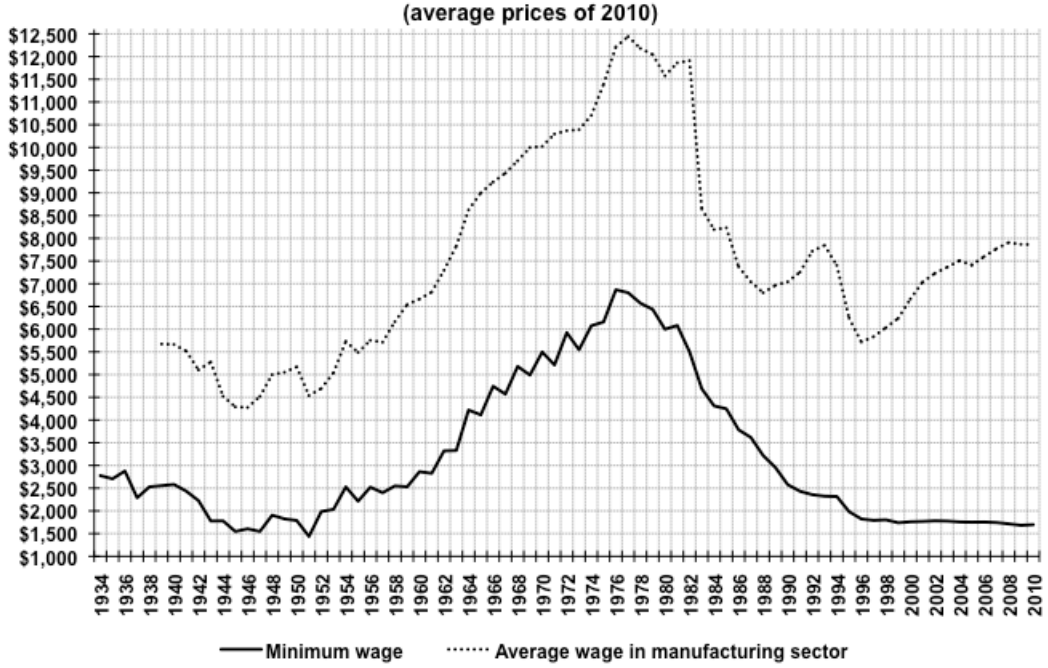
From 1982 onwards, the performance of the Mexican economy changed radically. In the last three decades it has experienced 5 cyclical crisis; that is, periods with absolute decline in GDP: 1982-1985, 1985-1988, 1995-1997, 2000-2003 and, the most recent, 2008-2010[4] (Figure 4 registers real quarterly GDP changes in Mexico and the United Sates since 1981). In this long period, which corresponds with a long wave of slow accumulation and growth, and in which neoliberal restructuring policies were imposed, the average annual GDP growth has been a meager 2.2%.

The crisis that started with the 1982-1983 recession had as detonating factors the escalation of international interest rates and the fall of oil prices that, in the context of heavy external indebtedness, collapsed the balance of payments. The contraction was long and deep: 6 quarters (1982-1 to 1983-2) with an accumulated GDP decline of -7.2%. The subsequent upturn was sluggish and only partial; the previous GDP peak level (of 1981-4) was never restored because the 9 quarters long recovery (up to 1985-3) was halted by the 1985-1986 recession. In a context characterized by the complete failure of orthodox adjustment policies in solving the external debt problem, the new recession lasted 5 quarters (1985-4 to 1986-4) with an accumulated real GDP contraction of -4.7%. Finally, after 8 quarters of a slow recovery GDP reached, at the end of 1988, the previous peak level, that of the last quarter of 1981. In fact, the 1982-1985 and 1985-1988 crisis coupled, similarly as in the Great Depression, into a long W-shaped crisis, in which the general rate of profit reached is lowest historical level and net real GDP growth was null during 28 quarters (7 years). This was the so called "lost presidential term" (sexenio) of Mexico in the context of the lost decade of Latin America

[4] From annual real GDP growth data it results that, since 1982, Mexico has been in crisis in 17 of the last 29 years: therefore, in almost three decades it has experienced only 12 years of economic expansion.

(Guillén, 1990), period in which the general deregulating neoliberal restructuring framework was imposed in the region. Although the maximum accumulated GDP decline during the Great Depression was much more profound (-20.5%), extremely high inflation during the long crisis of the 1980´s pulverized the purchasing power of wages (González and Mariña, 1995) (Figure 5 registers the long-run evolution of real minimal legal wage and real average wage in the manufacturing sector).[5]

Figure 5. MEXICO. 1934-2010: Real minimum wage and Real average wage in the manufacturing sector (average prices of 2010)



Sources: INEGI.

During the feeble 1989-1994 expansion (GDP average annual growth of 3.9%), in a context of partial recovery of the general rate of profit, developed the first phase of consolidation of the neoliberal restructuring process that culminated with the operation of the North America Free Trade Agreement (NAFTA) at the beginning of 1994. This expansion came to an end with the 1995-1997 crisis. The so-called "Tequila crisis" was

[5] Reduction of real minimum wage during the Great Depression (since 1933, inasmuch as 1929-1932 was a deflationary period) and the first phase of the expansion that started in 1935 was, until 1951, of around -50%; its reduction since 1976 has been of -75%.

caused by an increasing current account deficit, driven by the indiscriminate and accelerated trade liberalization, that was overextended by its financing by foreign capital inflows invested mainly in government bonds (TESOBONOS) in the context of the worldwide boom of emerging financial markets. Therefore, its outbreak and development was associated with the new mechanisms of financial subordination of peripheral to central countries that flourished with the deregulation of global capital flows; specifically, with the dilution of the difference between internal and external debt when, in an institutional framework that allows for unrestricted international capital flows, the former is owned by non-resident creditors (Mariña, 2007). The contraction was short but very deep: during 2 quarters (1995-1 and 1995-2) GDP declined -10%. The relatively fast recovery (GDP restored its previous peak after 7 quarters, in 1997-1) was due to the massive United States (US) and IMF support (50 billion dollars credit line) and to the export boom, particularly to US, derived from the operation of NAFTA (Mariña, 2005).

The 2000-2003 crisis closed the second phase of consolidation of the neoliberal restructuring process in Mexico. Putting and end to the short “golden period” of neoliberalism (1997-2000), when due to the boom of manufactured exports real GDP growth reached an annual average rate of 5.1%, this crisis revealed the limits of the US dependent maquiladora export-led model adopted by Mexico. This crisis developed with an almost exact synchrony with the US crisis, although in an amplified scale (Figure 4). The contractive phase was long but relatively mild: 6 quarters (2000-4 a 2002-1) with an accumulated GDP contraction of -2.7%, while recovery was slow (7 quarters until 2003-4). The subsequent expansion was not very strong (average GDP annual growth rate in 2004-2007 was 3.9%), mainly because of the lack of full recovery of maquiladora exports (Mariña, 2005).

The 2008-2010 crisis was preannounced by the weakening of economic activity dynamism since the third quarter of 2006 (coinciding with the US). After a slight reactivation at the end of 2007 and the beginning of 2008, the contraction started in the second quarter of 2008. The accumulated real GDP decline during 4 quarters, until the first of 2009, was of -8.5%. Recovery lasted 7 quarters: the previous real GDP peak (2008-1) was restored in the last quarter of 2010, that is, after 11 quarters (almost 3 years).

In comparison with the other cyclical crisis after the Great Depression, the 2008-2010 crisis was the most severe considering its combined deepness and length: although its total duration only surpassed the 1995-1997 crisis, its profundity was only surpassed by that same crisis.

2 THE MEXICAN CRISIS IN THE INTERNATIONAL CONTEXT

The progress of the world crisis during 2008-2009 was very uneven among the different regions and countries that integrate the world market (Mariña, 2009); recovery in 2010 and perspectives for 2011-2012 also are very unequal (Table 1). Slowdown of real GDP growth was particularly acute, with negative figures in 2009, in the more developed economies (0.2% in 2008 and -3.4% in 2009) in comparison with world economy as a whole (2.9% and -0.5%, respectively) and contrasting with developing and emerging economies (6.1% and 2.7%). Among the more developed economies, it was more severe in Japan (-1.2% and -6.3%) and the Euro Area (0.4% and -4.1%) and milder in US (0% and -2.6%). In the rest of the world the evolution of the crisis was also very heterogeneous. The most affected regions, especially in 2009, were Russia (5.2% in 2008 and -7.8% in 2009) and the countries of its economic sphere -Commonwealth of

Independent States (CIS) (5.3% and -6.4%)-, and Central and Eastern Europe (3% and -3.6%). Latin America and the Caribbean, as a whole, were less affected (4.3% and -1.7%) because the crisis was relatively moderate in Argentina (6.8% and 0.8%) and Brazil (5.2% and -0.6%) and despite the strong contraction of Mexico, which was the economy with the worst performance in Latin America and one of the worst of the world (1.5% and -6.1%). In sharp contrast with the world economy and with other regions, Developing Asia maintained high growth rates (7.7% y 7.2%), mainly because of strong dynamism in China (9.6% and 9.2%) and India (6.2% and 6.8%).

Recovery during 2010 was also very heterogeneous. Estimated real GDP growth in 2010 (5%) was based on the dynamism of Emerging and developing economies (7.3%), especially in Asia (9.5%) and Latin America and the Caribbean (6.1%); much less on Developed economies (3%) of which the Euro area had the worst performance (1.7%).

This wide inequality of GDP growth during the crisis and recovery is explained, on the one hand, by the restructuring of the world market during the neoliberal globalization processes in the last three decades due to the diverse paths of international economic reconnections taken by different countries (Mariña 2008); on the other hand, by the different types of economic policy strategies implemented during the crisis.

The performance of the Mexican economy negatively stands out as one with the deepest real GDP contraction in 2009 (-6.1%), only surpassed by Japan, some economies in advanced Europe (Finland, Slovenia, Ireland and Iceland), in the CIS (Ukraine, Armenia and Russia), in Central and Eastern Europe (Latvia, Lithuania, Estonia, Romania and Hungary) and in the Caribbean (St. Kitts & Nevis, Antigua & Barbuda and Grenada).

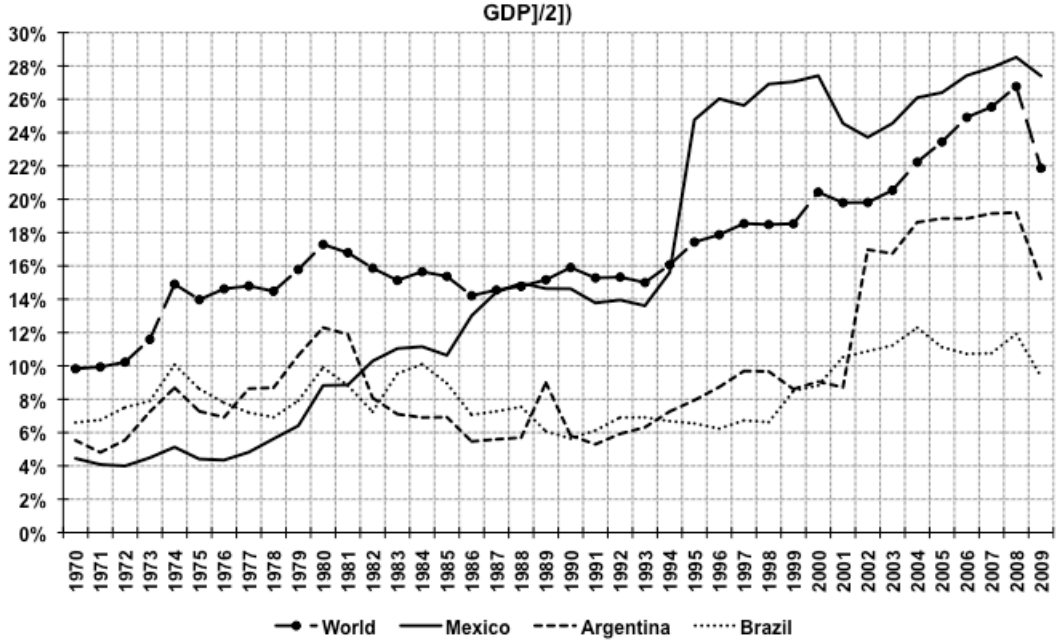
TABLE 1. WORLD, GROUPS OF COUNTRIES AND SELECTED COUNTRIES: Real GDP growth % annual change							
	2006	2007	2008	2009	2010 Estimates	2011 Estimates	2012 Estimates
World	5.2%	5.4%	2.9%	-0.5%	5.0%	4.4%	4.5%
Advanced economies	3.0%	2.7%	0.2%	-3.4%	3.0%	2.4%	2.6%
Japan	2.0%	2.4%	-1.2%	-6.3%	3.9%	1.4%	2.1%
Euro area	3.1%	2.9%	0.4%	-4.1%	1.7%	1.6%	1.8%
Finland	4.4%	5.3%	0.9%	-8.2%	3.1%	3.1%	2.5%
Slovenia	5.9%	6.9%	3.7%	-8.1%	1.2%	2.0%	2.4%
Ireland	5.3%	5.6%	-3.5%	-7.6%	-1.0%	0.5%	1.9%
Italy	2.0%	1.5%	-1.3%	-5.2%	1.3%	1.1%	1.3%
Germany	3.6%	2.8%	0.7%	-4.7%	3.5%	2.5%	2.1%
Spain	4.0%	3.6%	0.9%	-3.7%	-0.1%	0.8%	1.6%
France	2.4%	2.3%	0.1%	-2.5%	1.5%	1.6%	1.8%
Portugal	1.4%	2.4%	0.0%	-2.5%	1.4%	-1.5%	-0.5%
Greece	5.2%	4.3%	1.0%	-2.0%	-4.5%	-3.0%	1.1%
USA	2.7%	1.9%	0.0%	-2.6%	2.8%	2.8%	2.9%
Other advanced economies	4.7%	5.0%	1.6%	-1.2%	5.7%	3.9%	3.8%
Iceland	4.6%	6.0%	1.4%	-6.9%	-3.5%	2.3%	2.9%
United Kingdom	2.8%	2.7%	-0.1%	-4.9%	1.3%	1.7%	2.3%
Australia	2.6%	4.6%	2.6%	1.3%	2.7%	3.0%	3.5%
Emerging and developing economies	8.2%	8.8%	6.1%	2.7%	7.3%	6.5%	6.5%
Commonwealth of Independent States	8.9%	9.0%	5.3%	-6.4%	4.6%	5.0%	4.7%
Ukraine	7.4%	7.9%	1.9%	-14.8%	4.2%	4.5%	4.9%
Armenia	13.2%	13.7%	6.9%	-14.2%	2.6%	4.6%	4.3%
Russia	8.2%	8.5%	5.2%	-7.8%	4.0%	4.8%	4.5%
Central and Eastern Europe	6.4%	5.5%	3.2%	-3.6%	4.2%	3.7%	4.0%
Latvia	12.2%	10.0%	-4.2%	-18.0%	-0.3%	3.3%	4.0%
Lithuania	7.8%	9.8%	2.9%	-14.7%	1.3%	4.6%	3.8%
Estonia	10.6%	6.9%	-5.1%	-13.9%	3.1%	3.3%	3.7%
Romania	7.9%	6.3%	7.3%	-7.1%	-1.3%	1.5%	4.4%
Hungary	3.3%	0.8%	0.8%	-6.7%	1.2%	2.8%	2.8%
Latin America and the Caribbean	5.6%	5.7%	4.3%	-1.7%	6.1%	4.7%	4.2%
St. Kitts y Nevis	2.6%	4.2%	4.6%	-9.6%	-1.5%	1.5%	1.5%
Antigua y Barbuda	12.9%	6.5%	1.8%	-8.9%	-4.1%	3.1%	2.5%
Grenada	-2.3%	4.9%	2.2%	-7.6%	-1.4%	1.0%	2.8%
Mexico	5.2%	3.2%	1.5%	-6.1%	5.5%	4.6%	4.0%
Venezuela	9.9%	8.2%	4.8%	-3.3%	-1.9%	1.8%	1.6%
Chile	4.6%	4.6%	3.7%	-1.7%	5.3%	5.9%	4.9%
Brazil	4.0%	6.1%	5.2%	-0.6%	7.5%	4.5%	4.1%
Argentina	8.5%	8.6%	6.8%	0.8%	9.2%	6.0%	4.6%
Middle East and North Africa	5.8%	6.2%	5.1%	1.8%	3.8%	4.1%	4.2%
Subsaharan Africa	6.4%	7.2%	5.6%	2.8%	5.0%	5.5%	5.9%
Developing Asia	10.4%	11.4%	7.7%	7.2%	9.5%	8.4%	8.4%
India	9.7%	9.9%	6.2%	6.8%	10.4%	8.2%	7.8%
China	12.7%	14.2%	9.6%	9.2%	10.3%	9.6%	9.5%
Source: International Monetary Fund, World Economic Outlook, April 2011.							

3 THE SEVERITY OF THE MEXICAN CRISIS

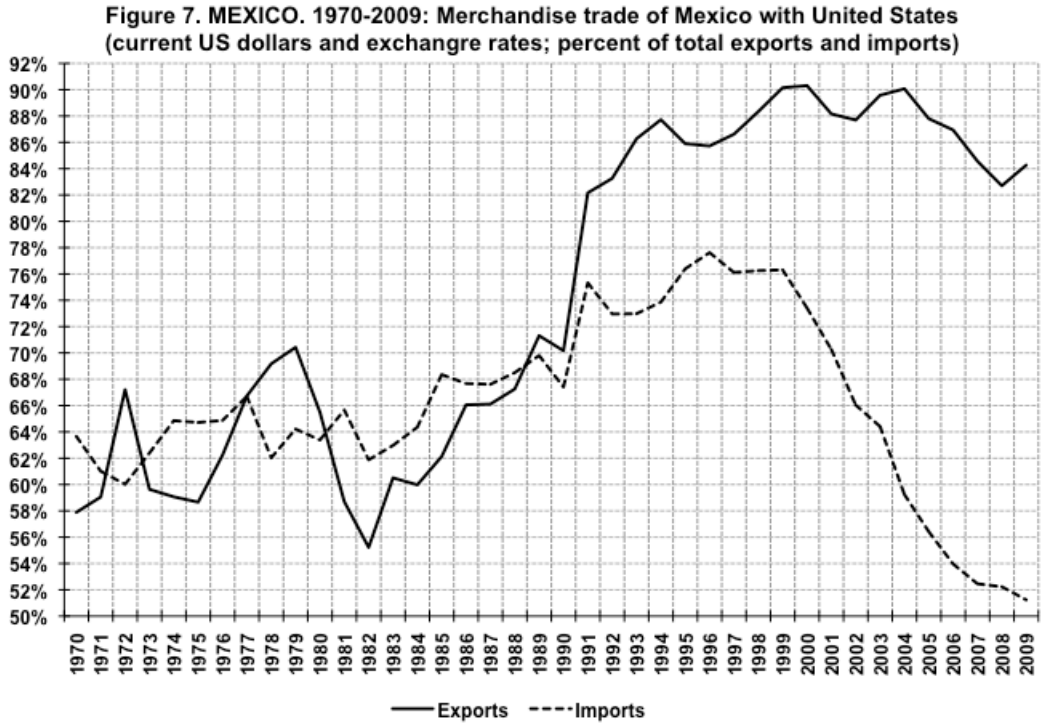
The severity of the Mexican crisis, both in historical and international perspectives, and of its negative effects on workers has as a first cause, of *structural* nature, the precarious economic model imposed in Mexico in the last three decades. Some of the main features of the specific modality of neoliberal restructuring in Mexico have been:

i) An *accelerated and indiscriminate trade and foreign direct investment liberalization* that transformed Mexico from a very closed economy to one of the most opened of Latin America and of the whole world (Figure 6 registers international merchandise trade coefficients of Mexico, Argentina, Brazil and the world economy since 1970), subordinated to the global relocation strategies of foreign and local transnational corporations, and greatly integrated commercially, especially through exports, to the US economy (Mariña, 2009a) (Figure 7 registers the share of USA in Mexican exports and imports since 1970).

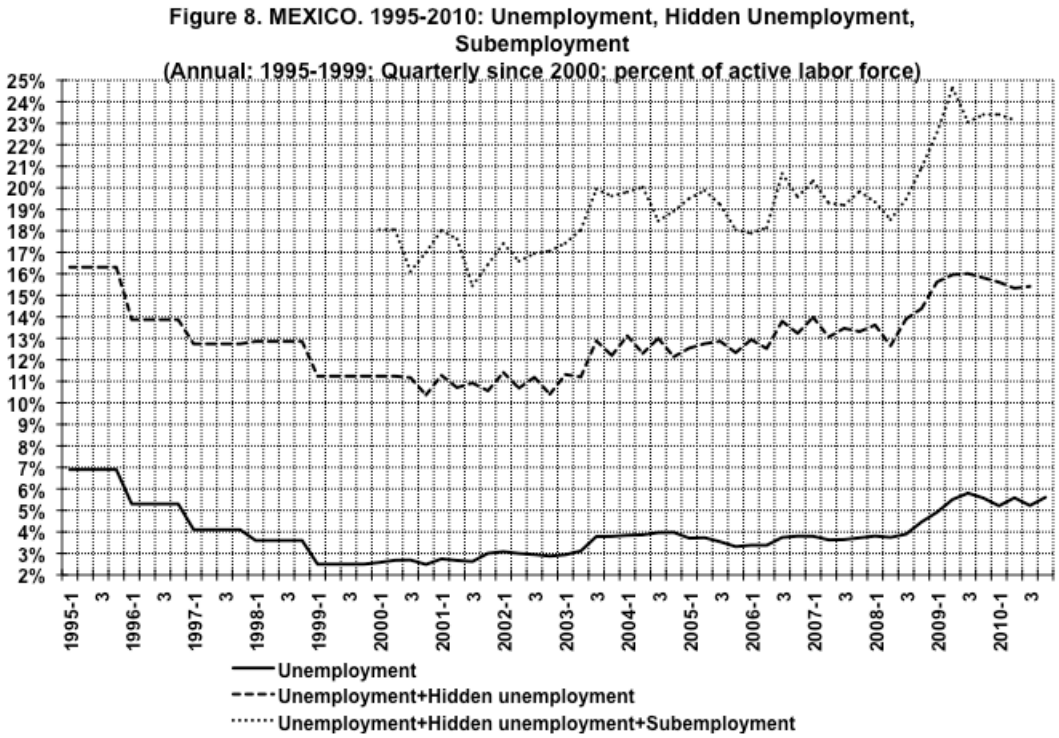
Figure 6. WORLD, MEXICO, ARGENTINA AND BRAZIL. 1970-2009: International merchandise trade coefficients (current US dollars and exchange rates; percent of GDP: [(exports + imports)/ GDP]/2])



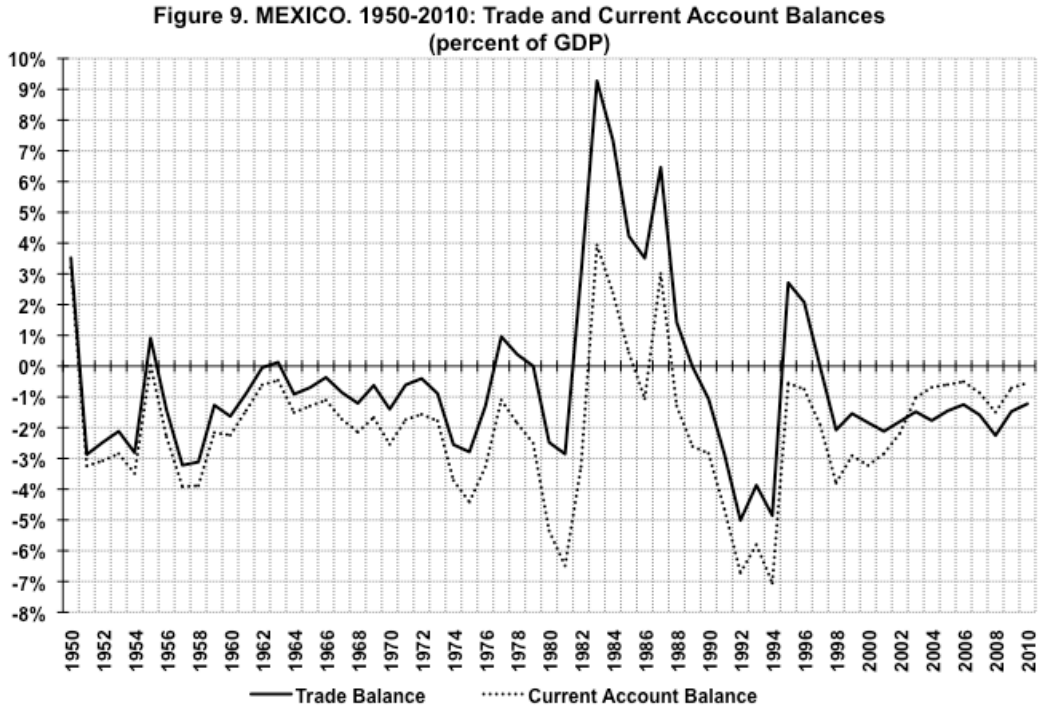
Sources: UNCTAD.



Sources: UNCTAD.



Sources: INEGIa.



Sources: BANXICO.

ii) The *deindustrialization of the economy*, particularly in the manufacturing sector in which complete branches disappeared with the indiscriminate trade liberalization, and the establishment of a "maquiladora" industrial export-led model completely dependent on temporary imports as it has not developed internal linkages. This model is sustained in *labor deregulation* and the consequent increasing flexibility of the conditions of purchase (wages), productive consumption (working day length and labor intensity) and reproduction (social benefits) of labor force as one of the main mechanisms of lowering costs of production. Therefore, it has generated a perverse competitiveness scheme that inhibits technological innovation and labor productivity, as well as the expansion of the internal market and the general dynamics of economic activity and employment. The insufficient creation of enough good quality formal jobs to meet the population's needs is the fundamental cause, on the one side, of the continuous deterioration of living

standards and of the increasing poverty levels and, on the other hand, of the huge emigration of labor force to the US (Figure 8 registers the conventional rate of unemployment plus two complementary rates that include hidden unemployment and subemployment since 1995).

iii) The consolidation of *trade deficit* as a structural feature of the economy as the surplus generated by "maquiladoras", oil industry and tourism does not compensate the deficit in agriculture products and non-maquiladora manufactures boosted by the process of deindustrialization. The consequent permanent negative pressures on the current account balance despite very large remittances flows from “braceros” working in the US (Figure 9 registers trade and current account balances since 1950).

iv) The *monopolistic privatization*, to local and foreign capitals, of formerly state owned firms: in the primary sector, mining; in the productive services sector, telephony; the banking and insurance systems, almost completely to foreign banks; vast segments of oil and electrical industries and public services, through sub-contracting.

v) The permanent necessity to finance the *current account deficit* with all types of foreign capital inflows: debt, foreign direct investment and portfolio investment in private stocks and public debt titles. Consequently, the structural subordination of monetary, exchange and fiscal policies to fulfill the interests of international creditors and investors: high real (in dollar terms) returns on financial investments require the stability or, even better for foreign creditors, the appreciation of the exchange rate, although its overvaluation adds some pressure on trade deficit.[6] Exchange rate stability requires accumulation of foreign reserves, not only to face short-run attacks on the Mexican

[6] In fact, export and import flows are relatively independent of the exchange rate value because a great portion, especially in the case of maquiladoras, are intrafirm trade. Manufactured exports account for around 80% of value of total exports; maquiladora exports for around 40% (Mariña, 2005).

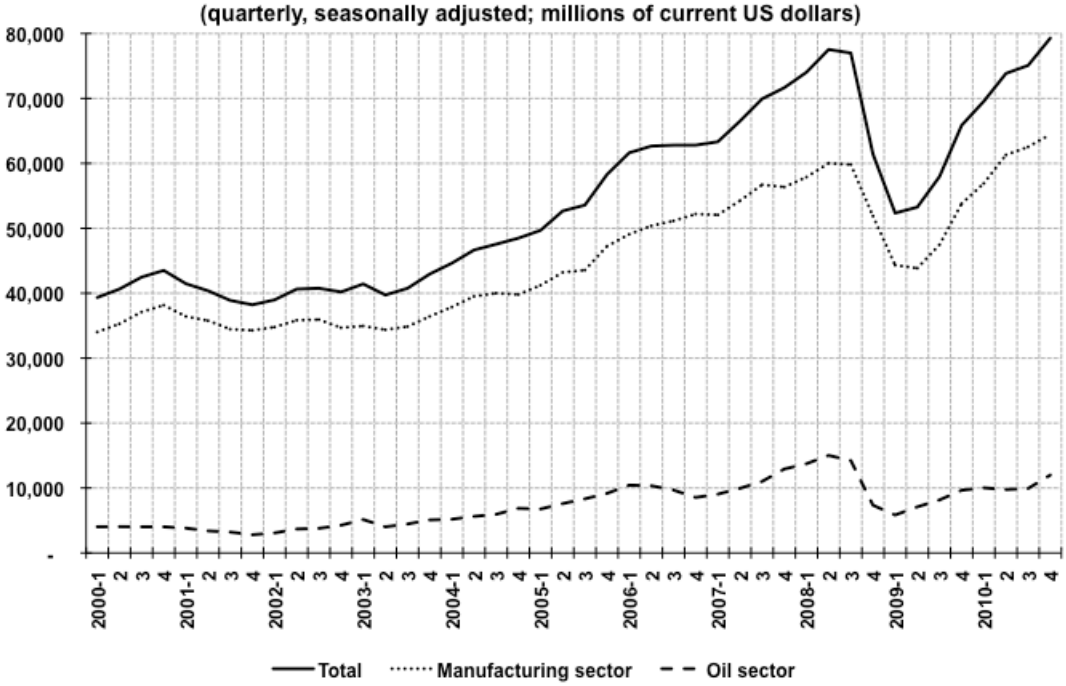
peso, but also to guarantee long-run convertibility of foreign investments; moreover, it requires balanced budgets to prevent inflation pressures in a context of slow economic growth. Therefore, because of its fundamentals, Mexican economic policy has become structurally pro-cyclical during slowdowns and contractive phases of cycles, and highly contradictory in terms of its effects: high interest rates relative to other countries, specially the US, have negative effects on productive investment, especially by local small and medium size firms that don't have access to international financing; overaccumulation of reserves with very low returns (inasmuch as they are kept mainly in US treasury bonds) is one of the causes of increasing foreign debt; near zero deficit budgets, nevertheless big deficits in social expenditure and investment, tend to depress the internal market.

3.1 Recession

The outbreak of the 2008-2010 crisis confirmed the ever-increasing acute dependency of Mexico to the US economy, clearly shown since the 2000-2003 crisis, but now in a much more amplified scale. The plunge of merchandise exports in the second half of 2008 and the beginning of 2009 (Figure 10 registers the value of merchandise exports since 2010) was a direct central factor of the strong contraction of economic activity. Reduction of manufactured exports, which resulted in the loss of many formal and relatively good paid jobs in the sector, was originated by the contraction of US external demand. Decline of oil external revenues was caused by the decrease both of international prices, determined largely by the world crisis, and of exported volumes, due to the reduction of production capacity. Total external revenues were also negatively affected by diminishing tourist services, which also depend highly

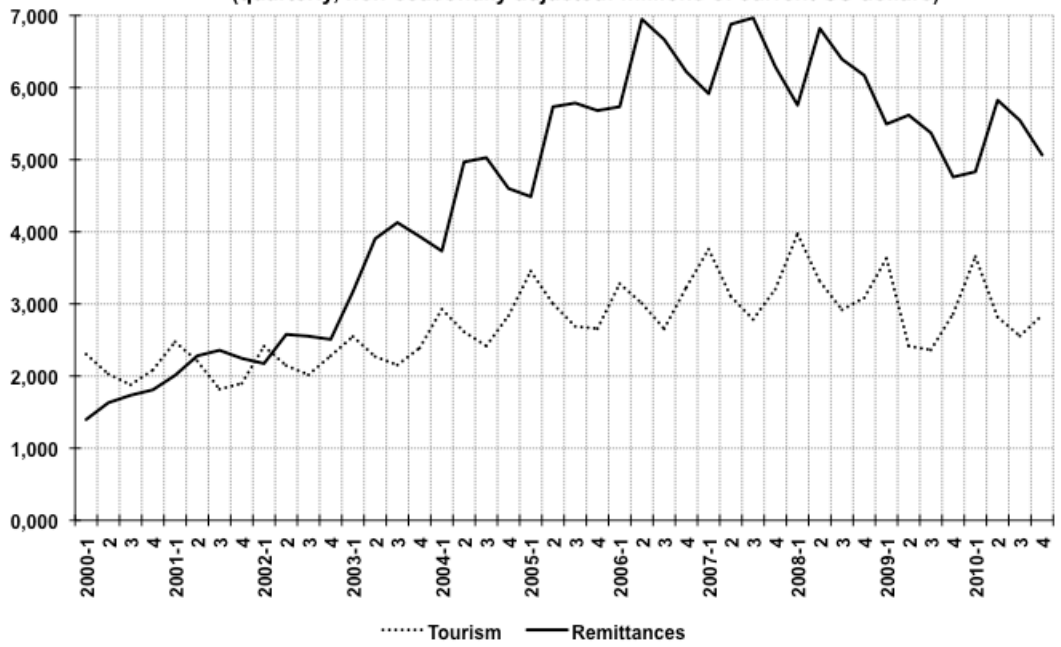
on US demand, and by the big contraction of remittances from abroad, due to the big increase in unemployment in the US, which contributed to the reduction of internal final consumption demand and, therefore, strengthened recessive tendencies (Figure 11 registers the value of tourism services and of remittances from aboard since 2010).

Figure 10. MEXICO. 2000-2010: Value of merchandise exports (quarterly, seasonally adjusted; millions of current US dollars)



Sources: INEGI.

Figure 11. MEXICO. 2000-2010: Value of Tourism Services and Remittances from Abroad
(quarterly, non-seasonally adjusted: millions of current US dollars)

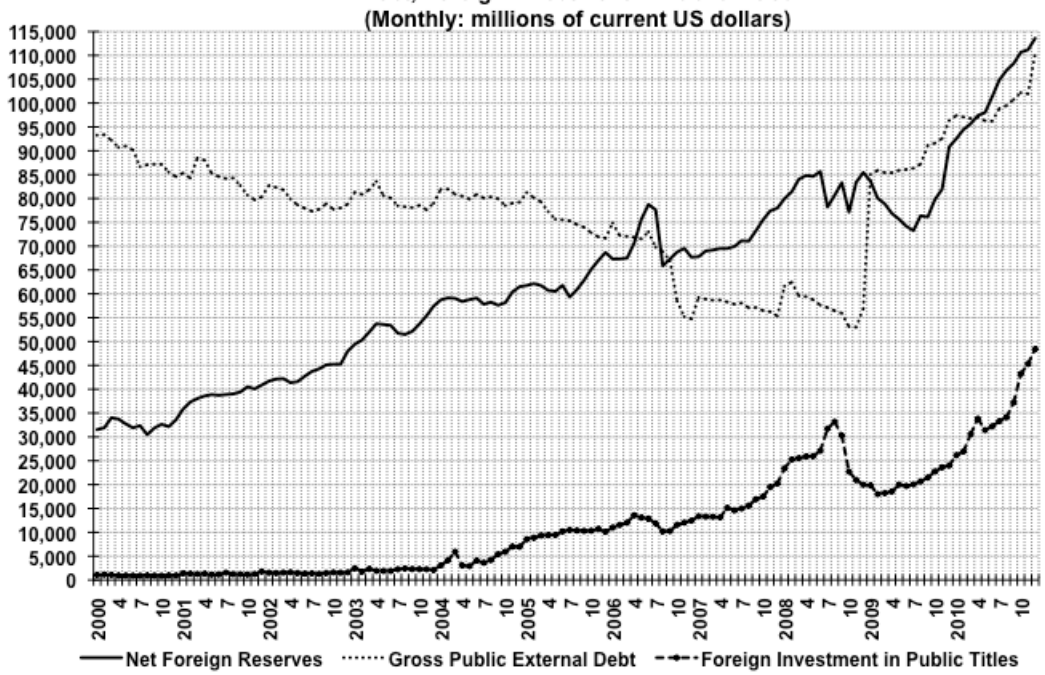


Sources: INEGI.

Figure 12. MEXICO and USA. 2000-2010:
Monthly: Interest rates of federal funds (annual rate); Mexican peso exchange rate (pesos per dollar)

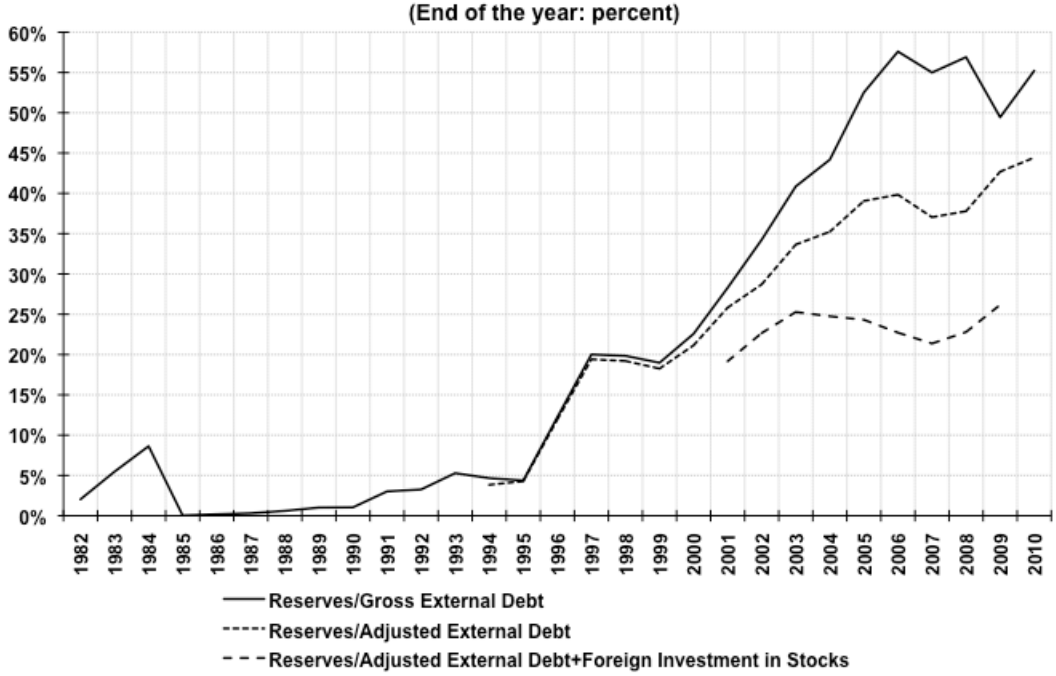
Sources: INEGI and FRS.

Figure 13. MEXICO. 2000-2010: Net Foreign Reserves, Gross Public External Debt, Foreign Investment in Public Titles (Monthly: millions of current US dollars)



Sources: INEGI, BANXICO and SHCP.

Figure 14. MEXICO. 1982-2010: International Reserves ratio to Gross External Debt, plus Foreign Investment in Public Titles and Stocks (End of the year: percent)



Sources: INEGI, BANXICO and SHCP.

Remarkably, in contrast with almost all the world, during the crisis the Mexican government *did not implement a comprehensive set of anti-cyclical policies* aimed to reduce the negative effects of the plunge of external revenues on productive activity, employment and internal demand. On the contrary, it applied pro-cyclical policies, firstly, to sustain the exchange rate through the accumulation of foreign reserves, which implied a restrictive monetary policy of high interest rates to attract foreign capital; secondly, to sustain fiscal equilibrium and avoid negative inflationary pressures on the exchange rate, through reduction of public expenses and increase of taxes and revenues from public goods and services. This is the second cause, of *short-run* nature but structurally determined, of the severity of the 2008-2010 crisis.

Thus, in the second semester of 2008, despite the negative tendency of GDP since the second quarter, the interest rate of federal funds was *raised* (Figure 12 registers interest rates of Mexico and USA, as well as the exchange rate peso/dollar since 2000) to backup the exchange rate against the negative fluctuations of international reserves (Figure 13 registers net foreign reserves, gross public external debt and foreign investment in public titles). Nevertheless, the exchange rate, which had been *appreciating* during the year, started a steep devaluation in September that ended in March of 2009 (-45%).

This tight monetary policy increased the positive spread between the nominal and, up to the devaluation, the real interest rate (deflated with the exchange rate) in Mexico, on the one hand, and the US interest rate, which had been diminishing since the second half of 2007, on the other hand. With devaluation and reduction of interest rates, which finally was applied at the beginning of 2009, the spread between real interest rate in Mexico and the US diminished since the end of 2008, still maintaining very high levels.

But, with renewed revaluation of the Mexican peso, the spread increased again at the end of 2009 and the beginning of 2010.

Evidently, the first high-priority objective of the Mexican government, carried out through a tight monetary policy along the crisis, has been to protect the short-run profits (valuated in foreign exchange) of all types of foreign financial investment by sustaining the exchange rate. This objective has been, to some extent, successful inasmuch as the peso not only stopped depreciating but also has partially and consistently revalued since April 2009. This was attained because of the fast recovery of international reserves since the second semester of 2009 (Figure 13) due, firstly, to the sharp increase of foreign investment in public debt titles since the second half of 2009 –driven by the increase of real interest rates in Mexico relative to US- and, secondly, to the increase in public external debt.

The second high-priority objective of the Mexican government, maybe not so evident but complementary of the first one, has been to guarantee the long-run convertibility of all types of foreign investment, especially in stocks and public debt titles, through the overaccumulation of international reserves. The sharp increase of the ratio of international reserves to foreign debt (public and private) from 23% in 2000 to around 55% since 2006 (Figure 14 registers the ratio of foreign reserves to total external debt, including foreign investment in public titles and stocks since 1982) is not justified by foreseeable payment requirements. In fact the real purpose of international reserves overaccumulation has been and still is to attain a constant high ratio to adjusted external debt (which includes, along with gross external debt, public debt owned by non-residents) and foreign investment in stocks. This objective has been partially achieved during the crisis with the relative success of the first objective, but also has been

sustained by a quick increase of public foreign debt since the second half of 2009 (Figure 13).[7] These pro-cyclical monetary and exchange policies were complemented with the 2010 budget, which cut spending in real terms and raised tax rates and prices of public goods and services to compensate diminished tax revenues and, supposedly, to prevent deficit-led inflationary pressures that could destabilize the exchange rate.

3.2 Recovery

Recovery of real GDP growth since the third quarter of 2009 and the restoration of its previous peak level at the end of 2010 was caused by the positive effects of the US economy recovery, since the second half of that year (Figure 3), on manufactured exports (Figure 10), which value restored to its previous peak in the second quarter of 2010. Value of oil exports, tourist services, and, especially, remittances from abroad haven't showed a similar restoration (Figure 11).

The strength and continuity of recovery and, therefore, the possibility of the consolidation of an expansive period is uncertain because its bases are very feeble. It is almost completely dependant on the evolution of the US economy and of exports to and remittances from that country. The increasing precariousness of employment (quality of jobs and wage levels) and persistent weakness in tourism and remittances has blocked the recovery of internal demand. Furthermore, the persistent pro-cyclical monetary policy continues to be a strong obstacle for the consolidation of economic expansion.

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[7] The huge leap in public foreign debt between December 2008 and January 2009 (28 billion dollars) is mostly explained by the incorporation of PIDIREGAS, a debt mechanism used by PEMEX (the State owned oil company) to raise private funds mostly from non-residents. Formerly, it was included among other public debt titles in hands of non-residents as part of the non-official external-debt.

4 CONCLUSIONS AND PERSPECTIVES

i) The severity of the 2008-2010 crisis confirmed the limits reached by the neoliberal model imposed in Mexico in the last three decades and radically defended by the present government. Structurally, Mexico has very weak endogenous sources of economic growth. On the one hand, the dynamism of exports, which account for a large portion of GDP, almost entirely rely on US demand; on the other, international competitiveness is in a large extent based, especially in the case of maquiladoras, on precarious labor and, therefore, hinders the expansion of internal demand. Persistent current account imbalances determine the structural subordination of the Mexican economy to all types of foreign creditors and investors and, therefore, to financing capital.

ii) Economic policy has become structurally pro-cyclical during slowdowns and contractive periods as a result of the subordination of neoliberal governments to the interests of financial capital that either operates mainly in the productive sectors or in the financial markets. In fact, economic policy has become largely passive, inasmuch as it doesn't change much during recovery and expansion periods. Therefore, it limits positive growth in good times and reinforces negative growth in bad times.

iii) Perspectives for the years to come are uncertain but, paradoxically, predictable. The performance of exports, manufacturing production and remittances, and consequently of GDP and employment, will depend on the dynamism of the US economy. If the US economy slows down, the Mexican economy will follow in an amplified scale. Whenever a new recession starts in the US, the Mexican economy will surely plummet into a severe contraction. Any general disruption of the global financial markets that would induce foreign investment outflows, generating devaluation

pressures on the peso and inflationary tendencies, will reinforce pro-cyclical policies and, thus, will strengthen contractive tendencies on the economy.

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