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AMLO and the “Fourth Transformation” in Mexico

BY ROBERTO SALINAS-LEÓN

According to Enrique Krauze, Mexico's prominent classical-liberal intellectual, new “winds of authoritarianism” are sweeping across Latin America, characterized by all-mighty caudillos who ascend to political power via democratic means, but who then seek to concentrate control over a tightly knit polity of order and moral virtue.

Mexico is beginning to stand out as a prospective victim of this rising tide of illiberal populism. Andrés Manuel López Obrador (popularly known by his initials, AMLO) won a landslide electoral victory on July 1, 2018, and assumed the presidency of Mexico on December 1, 2018. From the outset, while still president-elect, López Obrador launched a crusade against “the long neoliberal nightmare” that, by his account, had left the country in ruin. Instead, he has promised a “Fourth Transformation,” (according to López Obrador, the first three transformations are the Independence of 1810; the Reform of 1861, which achieved the separation of church and state; and the Revolution of 1910), which he defines as a revolutionary movement to wipe out all

corruption, erase income disparities, and secure national self-sufficiency.

So far, López Obrador's own wind of authoritarianism reflects an adherence to toxic policy proposals, a disdain for independent checks and balances, and an intolerance to any view that is inconsistent with his preconceived notion of a virtuous

society. Mexico is on the brink of a recession, with less than 1 percent growth expected for 2019, along with a slew of credit downgrades and a sudden stop of productive investment. Carlos Urzúa, López Obrador's first minister of finance, tendered his resignation just seven months after assuming

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DAVID BIER, immigration policy analyst at the Cato Institute, outlines a humane solution to the border crisis September 10, 2019, during a TEDx talk in New York City.

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the post. His rationale: López Obrador was making policy decisions based on whim and patronage, oblivious to cost-benefit analysis. Urzúa was, predictably, branded as a neo-liberal traitor.

But Urzúa arguably understated his assessment. López Obrador's decision-making process represents a dangerous admixture of ignorance, intolerance, and resentment. This rhetoric heralds the possible resurgence of a hegemonic regime, much like the "perfect dictatorship" that enabled the old Partido Revolucionario Institucional (PRI) to remain in power for more than seven decades in the 20th century. The hallmarks of this system are using handouts to forge constituencies, making cozy arrangements with special interests, and reorganizing the federal bureaucracy with civil servants whose loyalty to the leader is all that counts. In short, López Obrador is confirming the worst fears of mainstream wisdom: that he is more akin to the irrational populism of Hugo Chávez than he is to more moderate progressive left-wing governments.

He still commands a 65 percent approval rating. There is no dispute on the reasons his Movimiento Regeneración Nacional (Morena) party won an overwhelming triumph in 2018. The party clearly benefited electorally from the unstoppable wave of violence; cases of corruption, cronyism, and impunity; and the chronically mediocre growth rates that saddled Enrique Peña Nieto's administration with the lowest approval rating in Mexico's modern history. López Obrador was able to position himself as a savior, promising to bring a swift end to corruption and corporatism. In the words of Francis Fukuyama, he was able to exploit the "politics of resentment" among angry citizens exhausted by perceived injustices imposed by an uncaring elite. He embellished his case by promising to restore popular dignity via a "moral constitution."

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Under the López Obrador paradigm, the authentic role of government is to allocate funds to targeted social groups, not to create the conditions for greater investment. The program of distributing direct handouts (almost \$10 billion) constitutes vintage clientelism. As Mexican author Jesús Silva Herzog warns, behind the facade of fiscal austerity “lies an autocratic conviction of patrimonialism,” where federal funds are shifted and redirected as if they were the sole property of the ruler in charge.

The fundamental challenge facing Mexico is whether López Obrador will wield the Fourth Transformation to deconstruct many hard-won market reforms that took place in the past quarter century. These include multilateral trade liberalization, the slow (if erratic) development of checks and balances, the advent of monetary stability under a regime of central bank independence, and the crucially important achievement in energy liberalization (the 2014 reform that opened the energy sector to private investment in all areas of the productive chain).

VOX POPULI

López Obrador has decreed the use of “popular consultations,” or referendums, to decide the outcome of major initiatives. These have included halting the construction of a new airport in Mexico City and a new oil refinery in his home state of Tabasco. The referendums that have taken place so far are a sham: they are based on less than

1 percent of registered voters, are predominantly in areas controlled by Morena, and are framed with questions embodying a flagrant bias toward the result López Obrador wants. This strategy has enabled him to conflate his own personal popularity with policy decisions purportedly legitimized by popular mandate. The real outcomes have dealt a serious blow to investment confidence and lend credence to the view that policy is being made in a mix of ignorance, intolerance, and resentment:

- The most salient example of López Obrador's authoritarianism was the decision to cancel construction of the new Mexico City international airport—a \$13 billion infrastructure project that was slated to generate significant value added via new supply chains and was expected to become one of the 10 most important airports in the world, rivaling Chicago or Miami in global connectivity. In October 2018, while still president-elect, López Obrador called the very first of his whimsical referendums—and the final vote was, unsurprisingly, to halt the construction of the new airport. But \$5 billion had already been poured into development and the project was 35 percent complete. Because bond holders had a long-term pledge at stake, the government could not formally terminate the project until all bondholders were redeemed (at par, plus premium)—a bill that cost another \$7 billion. As economist Arturo Damm Arnal notes, this is the first project of this magnitude where taxpayer resources had to be disbursed to discontinue such a large project.
- Another project submitted to a popular consultation was the construction of a multistate train route

stretching across the Riviera Maya. López Obrador, as with many other projects, dismissed concerns with a blasé quip: “va, porque va” (it goes because it goes). Critics, such as the Mexican Institute of Competitiveness, suggest an estimated real cost of up to \$5 billion—almost 10 times the official projection.

- Another example was the decision to undertake construction of an oil refinery in the port of Dos Bocas, in Tabasco, which was also submitted to a patently biased yes-or-no referendum. No auction was set, and only four companies were invited to submit bids. All four subsequently withdrew their bids, as the time and finance requirements were deemed unreachable. The official estimates claim the refinery will cost \$8 billion, and that it will be completed in three years. This constitutes wishful thinking. Independent analyses suggest that the project will cost more than \$16 billion and take well over six years to complete.
- López Obrador has also dealt a heavy blow to the landmark energy reform of 2014. Open auctions for opening exploration and development projects to new capital investment (from home and from abroad) have been suspended indefinitely, and the practice will be submitted to another referendum in 2021. These so-called “farmouts” are often construed as surrendering national sovereignty and thus are considered another example of neoliberal treason—even though suspension of private bids represents an opportunity cost of \$200 billion in forgone capital investment. This was quickly followed by suspension of all auctions in

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electricity capacity—and with it, a loss of some \$20 billion of investments in renewable energy projects.

- Perhaps the most toxic policy initiative to date is the López Obrador administration’s approval of a new law that categorizes fiscal evasion and noncompliance as organized crime, which effectively empowers the government to seize all assets of a presumed guilty party, freeze bank accounts, assign an immediate jail term, and sell forfeited assets and property at any price. Trampling on individual rights of registered taxpayers with such threats will not enhance tax revenues. More importantly, it constitutes a significant step backward in Mexico’s already fragile climate of property rights and economic liberty.

The obsession to base policy decision-making on ideology, rather than cost-benefit criteria, reflects López Obrador’s contempt for modern technocrats. As his National Development Plan states, the Fourth Transformation seeks a “paradigm shift where planning now emanates from the will of the people, instead of dictates imposed by the Washington consensus.”

A classical liberal may share the disdain for preconceived solutions imposed from the lofty reaches of the International Monetary Fund, Davos, or the latest fashion in mainstream thought. But López Obrador has simply substituted one conceit for

another—the messianic leader who knows better, the paterfamilias who will take care of his lot in accordance with a preconceived notion of social virtue. López Obrador has proudly announced the “end of the neoliberal nightmare.” A consequence of this way of rigging the debate is that anyone who questions the will of the leader is declared an agent of “theft, against the national interest, and anti-popular.” Not surprisingly, public discourse and debate have suffered an acute polarization.

CHECKS AND BALANCES

In 2006, López Obrador famously denounced electoral tribunals for stealing presidential elections and declared “to hell with institutions.” This ominous threat has now turned into a full-scale onslaught against Mexico’s checks and balances, including nascent autonomous institutions, such as energy regulatory agencies, the federal electoral institute, and even the Supreme Court. Naturally, media and freedom of expression have become recurrent targets of scorn and denunciation.

The practice of demonizing opposition has even been applied to banks and multilateral agencies. These organizations predict a sharp slowdown of economic growth due to negative signals in investor confidence. López Obrador rejects such revisions and insists that Mexico will reach 2 percent growth in 2019 and 4 percent by the end of his six-year term. Why? No evidence is offered, beyond his claims that outside methodologies are flawed, and that “yo tengo otros datos” (I have other facts). At other times, he has changed the terms of the debate, saying that growth is a statistical obsession of neoliberal technocrats and that what matters instead is wealth redistribution because “our final goal is to make people happier.” López Obrador seems to take reality as a personal insult. He has demanded apologies from the International Monetary Fund, the *Financial Times*, and

even the king of Spain, arguing that none have the moral authority to issue judgments about Mexico's development. One Morena legislator even suggested expelling Moody's and Standard & Poor's from the country.

An important aspect of the destruction of checks and balances is that López Obrador could be tempted to do the same with monetary policy—and thereby undermine the very idea of independent central banks. The independence of the Banco de México is one of the country's most successful reforms of the past quarter century. It laid the basis for a transition from a scenario characterized by runaway inflation and sharp exchange rate volatility to a climate of stability. In the pre-stability era, Mexicans were required to take steps to avoid the erosion of their purchasing power, usually by shifting earnings to dollars or by using durable goods as a store of value. Now, concerns about exchange-rate shifts or spikes in inflation are secondary. The assessment of risk focuses on real cost reduction, market competitiveness, and mitigation of high transaction costs (e.g., overregulation, security, contract enforcement, and the like). The new climate of stability allowed for the emergence of long-term mortgage markets, as well as placement of private debt at lower rates and longer terms—in local denominations.

The loss of this hard-won transformation would be catastrophic. But this cannot be ruled out. López Obrador has, thus far, respected central bank autonomy (even while he has pushed for reduction of interest rates), and he is sensitive to sharp variations in the exchange rate. This is encouraging, but the onslaught against autonomous institutions cuts against extending the benefit of the doubt to him.

AN UNCERTAIN FUTURE

In theory, risk aversion should act as a deterrent against poor public policy choices. Mexico's main economic driver, along with monetary stability, is foreign trade; a quarter century of aggressive trade liberalization has

“López Obrador's fatal conceit could transform the winds of authoritarianism into a typhoon.”

generated tightly integrated supply chains, a diversification of exports, and massive growth of Mexico's external sector. Although its success remains intimately tied to the North American cycle, the diversification of tradable goods has reduced the risk of overreliance on natural resources. The vast majority of exports (87 percent) are destined to the U.S. market. In addition, Mexican consumers spend a great deal on imports: more than \$400 billion per annum, 90 percent of which originate from the United States.

Mexico's extensive trade relationships suggest that the economy will follow the course of a globally integrated economy. And the López Obrador government supports the revised United States–Mexico–Canada Agreement (USMCA), which has already been ratified by Mexico's Senate. This, too, is a positive outcome.

However, failure to correct toxic policies means that Mexico's economy will face the inexorable pain of market discipline. The cancellation of the new airport showed the investment world that the new president can do whatever he wants. Fear and uncertainty in the investment climate are a natural result of such caprices, and with it, the paralysis of productive investment and economic growth. To be sure, López Obrador could opt for a more pragmatic approach. But the aforementioned mix of intolerance, ignorance, and resentment suggests that the new government is unlikely to rethink unfortunate policy decisions that have undermined investor confidence. A reversal of the decision to cancel the new airport, with the stamp of the new regime, would go a significant way toward reestablishing

credibility in the investment climate. So would the abandonment of a misplaced nostalgia for the false glory of oil nationalism, and with it, a revival of energy auctions to capital investment. López Obrador can take a more flexible policy stance without giving up his Fourth Transformation rhetoric.

For now, however, Mexico's prospects for the near future are not encouraging. Despite visible progress during the past quarter century in areas including sound money and open trade, formidable challenges remain, particularly in such areas as public security and well-defined property rights. López Obrador's chief of staff, Alfonso Romo, a prominent figure in the business community, continually (if unpersuasively) reassures investors that respect for property as a right of individuals constitutes a fundamental tenet of the Fourth Transformation. He asserts that this position is, in fact, inspired by the famous saying of López Obrador's own hero, Benito Juárez—“el respeto al derecho ajeno es la paz” (respect for the rights of others is peace). Genuinely adopting this view would require a change in focus to securing the conditions for prosperity, especially in this era of trade integration and hyperrapid capital flows, and would mean market-oriented human capital formation and predictability in Mexico's institutional arrangements.

This, however, presupposes a willingness to listen, and a tolerance to criticism. So far, López Obrador has managed to perfect intolerance into an artform. Octavio Paz, Mexico's great 20th-century liberal, warned that government behaves more like a “philanthropic ogre,” often trampling its citizens, depending on the caprice of the day. And this is perhaps the most worrisome aspect of López Obrador's leadership, beyond toxic policy decisions: the fatal conceit that only he has access to the “real” truth about the course of the country. This could transform the winds of authoritarianism into a typhoon, rendering an open society in Mexico a distant hope for tomorrow. ■