



Mexico's Last Chance: Can Felipe Calderón Deliver the Goods?

By Roger F. Noriega

By the narrowest of margins in the July 2 elections, Mexicans apparently have backed away from a precipice and won a precious second chance to save their country. Assuming the results are certified by September 6, Mexico's political class, led by president-elect Felipe Calderón, must now deliver a reform agenda that will both sustain economic growth and overcome the structural poverty that keeps that nation from realizing its full potential. If the political class fails, it will forfeit Mexico's future, converting the United States's southern neighbor into a chronic problem rather than a thriving partner.

The extraordinarily competitive, democratic elections Mexico held on July 2 are perhaps the greatest legacy of President Vicente Fox Quesada. Six years ago, Fox defeated the political machine of the Institutional Revolutionary Party (PRI) that had controlled power in Mexico for over seventy years. His audacious campaign and surprising victory raised expectations that his reform-minded government would make great strides modernizing Mexico, both economically and politically. In reality, Fox and his team disappointed most Mexicans. His principled supporters were left frustrated because he did not act resolutely to make Mexico's economy more competitive and its government more accountable. Those skeptical of Fox's liberal economics from the outset perceived that his program failed to generate jobs and opportunity.

Thus, virtually every one of the 40 million Mexicans who went to the polls in July was voting for change. This is the reality that Felipe Calderón must take to heart as he assumes office. Calderón, who served as secretary of energy in Fox's cabinet, won *in spite* of the president's record. A year ago, it was unthinkable that the ruling National Action Party (PAN) could hold onto power. The PAN was competitive only because party stalwart Calderón

won a series of regional primaries to wrest the nomination from Fox's preferred successor, Santiago Creel. Had the PRI rank-and-file been allowed to choose its nominee from among a cadre of modern, able state governors, the once-omnipotent party might have claimed more than 22 percent of the national vote. Instead, unreconstructed party boss Roberto Madrazo claimed the PRI nomination as if it were his personal property, and voters never accepted this archetypal PRI "dinosaur" as an agent of change.

The nomination of the leftist Democratic Revolutionary Party (PRD) went to popular Mexico City mayor, Andrés Manuel López Obrador, known universally by his initials, AMLO. Going into election day, the presidency was his to lose. AMLO's feisty style won him the devoted support of those on the Left and among the urban poor. Indeed, he won nearly 60 percent of the capital's voters, compared to his 35 percent showing nationwide. The PAN and the PRI were able to raise concerns among Mexico's cautious, conservative electorate that the populist AMLO would not govern responsibly or well.

On election morning, Sunday, July 2, AMLO was leading or tied in most credible polls. Informed observers believed that, if anything, pollsters were understating AMLO's support by

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undercounting the poor among whom the PRD candidate enjoyed the greatest support. In the final analysis, it appears that the PAN succeeded mightily in getting its voters to the polls, particularly in Mexico's northern states. The PAN and Calderón also convinced enough reform-minded PRI voters not to waste their vote on Madrazo.

A Disloyal Opposition?

AMLO's calls for street protests to pressure Mexico's electoral authorities to recount ballots will confirm the worst impressions that he does not respect institutions or play by the rules. He has ratcheted up pressure, proposing to suspend mass protests in Mexico City's main square only if electoral authorities order a recount of every ballot. On July 16, AMLO called on an estimated 1.1 million protesters to begin a week of civil resistance in addition to announcing another planned rally for July 30. But AMLO is not just attacking the results, as even a vote-by-vote recount will not satisfy his demands. He has accused the internationally respected Federal Electoral Institute of manipulating the counting and has threatened to further undermine Mexico's electoral institutions by stating that he will never accept the legitimacy of Calderón's victory, even if such a nationwide recount confirms the original result.¹

Indeed, despite the closeness of the election, Mexico's extraordinarily modern, centralized electoral apparatus leaves little room for fraud or manipulation. Both the voter identification card and the voter list printed for each voting station feature a photograph of the citizen, and the card includes fingerprint and tamper-proof technology. Paper ballots are tabulated at 130,000 voting tables, and results are shared with all party representatives. Within a few hours the results from each table are published on an Internet website sponsored by the electoral authority. The rest is arithmetic—and the votes did not add up for AMLO: Calderón's ticket won with 15,000,284 votes (35.89 percent), compared to AMLO's 14,756,350 votes (35.3 percent) and Madrazo's 9,301,441 votes (22.3 percent). These results, tabulated by the nonpartisan, professional Federal Electoral Institute, must now be certified by the Federal Electoral Tribunal before September 6; the tribunal has broad

powers to deal with complaints, but most experts believe that a nationwide recount is neither justified nor likely.

AMLO must know that his exaggerated allegations of fraud only serve to undermine confidence in Mexico's government. His opponents in the PAN and the PRI know this, too. And it must be clearer than ever to them that Mexico's institutions have dodged a political bullet with the narrow defeat of this irascible populist.

Paradoxically, AMLO's incendiary antics may be aiding Calderón's task of adopting a series of urgent reforms. Responsible members of the PRI should understand that unless the political class works with Calderón to help him quickly deliver a modicum of reform, economic growth, and social progress, Mexico's stability will be undermined by AMLO and his radical agenda for many years to come.

The AMLO phenomenon is not startling because he represents an ideological challenge to liberal economics or institutional democracy. As a matter of fact, it is fair to say that López Obrador was absolutely justified in his indictment of the existing power structure in Mexico for failing to address the basic needs of the country's poor majority. Inequality in Mexico is pronounced: in terms of wealth, the top 10 percent of Mexicans claim 43.1 percent of total national income, while the bottom 20 percent claim only 3.1 percent. What is worse, the gap has grown wider since 1980, as wealthy Mexicans have reaped the benefits of growth while the poor have fallen further behind.²

The danger of AMLO's candidacy was not its long list of bad ideas, but its utter lack of any new ideas for addressing the very real injustice and structural poverty about which he spoke so passionately during the campaign. Now it is time for Calderón to address those challenges head-on and with the sense of urgency that they deserve.

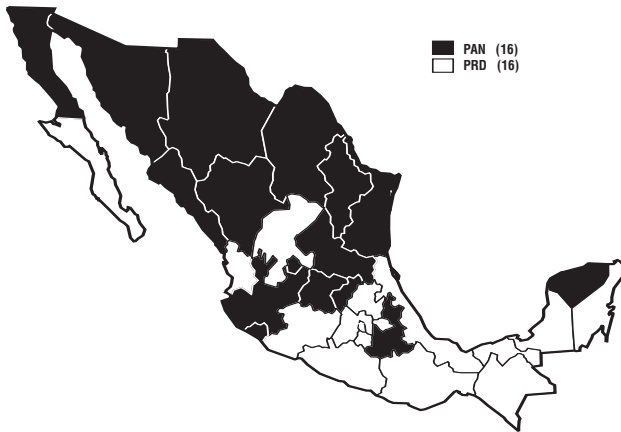
Can Calderón Govern?

Unlike AMLO and Madrazo (and even President Fox), Calderón appears to have the rare combination of principles, sound ideas, and political toughness that will be needed to confront Mexico's daunting challenges. He carried those ideas to the electorate and won a razor-thin victory. But delivering on Calderón's promises will require the good faith efforts of all of Mexico's responsible political class.

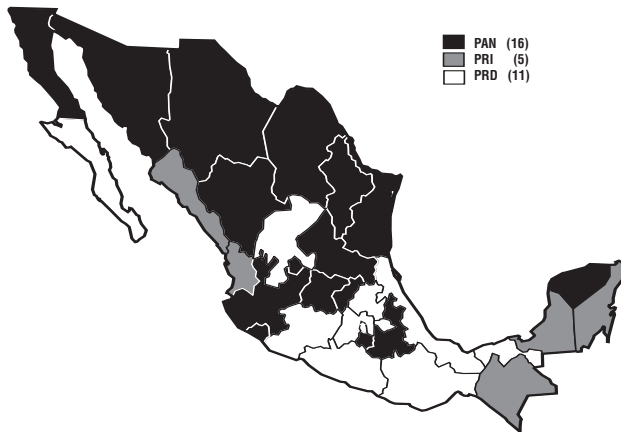
Mexico's economy is not growing fast enough to create jobs to keep up with its burgeoning population. Half of Mexico's 100 million citizens live in poverty.

General Federal Election Maps: Mexico, July 2006

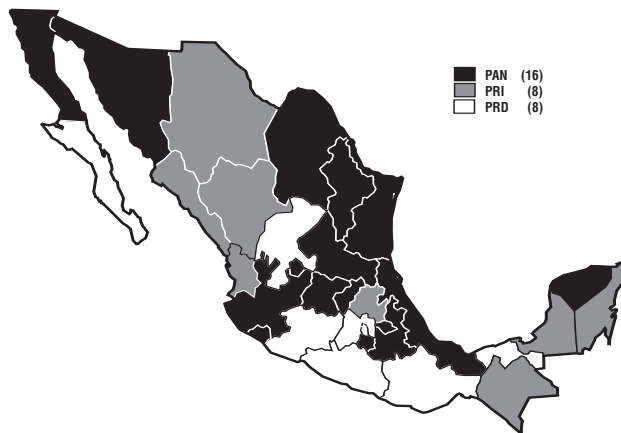
President of the United Mexican States



Senators by Relative Majority



Deputies by Relative Majority



SOURCE: Instituto Federal Electoral, "Proceso Electoral Federal 2006: Reportes de Cómputos Distritales," available at www-site.ife.org.mx/documentos/computos2006/index_computos.htm.

Calderón's PAN apparently has won 206 of the 500 seats in the Chamber of Deputies, and 52 of 128 seats in the Senate. AMLO's Coalition for the Good of All claims 159 deputies and 36 senators. The Alliance for Mexico (which includes the PRI) will have 122 deputies and 39 senators. López Obrador is comfortable in the role of disloyal opposition, and he will likely demand absolute party discipline in Congress. So, Calderón will likely have to look to the PRI to build majorities around a slate of reforms or on single issues. The task will be daunting, but since before his election Calderón has made it clear that he is disposed to build coalitions.

The PRI is undergoing understandable soul-searching since discovering on July 2 that its "floor" of steadfast voters turned out to be subterranean in political terms. Even Madrazo's bitterest opponents within the PRI were probably stung by the poor showing of the PRI ticket. They must be sobered by the task ahead of salvaging what is left of their national party. What will be key for the PRI is for a new generation of governors and proven vote-winners to claim the party from the old bosses who are out of touch with Mexico today. Unless the PRI leadership wants to be consigned by events to be the party of the rural poor, eclipsed permanently by AMLO and the PRD, it must find a way to make itself relevant to a positive program that demonstrates that Mexico's problems can be addressed without smashing its institutions. And that is precisely what Calderón intends to do. Results from the congressional elections seem to suggest that this shift is already underway at a local level. While at the national level Madrazo only claimed 22.3 percent of the vote for president, the Alliance for Mexico did much better in Congress, earning 28.2 percent of the votes for deputy candidates, and 28.1 percent in the Senate.

Making the Market Work for All Mexicans?

Mexico has one of the dozen largest economies in the world, with 4 to 5 percent growth rates in recent years. It has benefited from high oil prices and it is doing better in terms of competitiveness than most nations in Latin America. The bad news is that Mexico's economy is not growing fast enough to create jobs to keep up with its burgeoning population. Despite being an energy-rich country, it is still importing electricity and gasoline. Half of Mexico's 100 million citizens live in poverty. Too many are treading water in

the nation's informal sector because the state has not done enough to accommodate their entrepreneurial spirit. For example, it takes an average of fifty-eight days in Mexico to set up a business, while in the United States it takes only five.³ It should therefore be no surprise that more than a quarter of the workforce earns its wages in the informal sector. In addition, Mexico's second largest source of capital is people who have had to leave their country to find work. So, complacency is a recipe for disaster for Mexico.

Calderón has done what too few political leaders in Latin America would be willing to do: he stated plainly in his presidential campaign that the free market and private capital are the engines of growth and the solutions to poverty, and he has taken the blame on behalf of his nation's political class for letting the Mexican people down. He campaigned on a market-based formula for job creation. The state's responsibility, he asserts, is to maintain economic stability, construct a genuine rule of law, create a competitive environment for business, promote regional development, and invest in social programs that ensure equal opportunity for all citizens. Those responsible policies, Calderón postulates, will attract the investment essential to generate employment for Mexicans.

As for maintaining macroeconomic stability, Calderón prescribes an orthodox political formula, including low interest rates, low inflation, stable exchange rates, low debt, and orderly public finance. He also understands the fundamental role of strong institutions to sustained economic growth. "The institutional framework establishes the rules of the game, promoting predictability and order," Calderón explained during his campaign. "These rules must be clear and fair and there must be a certainty that they will be respected by everyone."

"The creation of good paying jobs is the only sustainable solution to emigration caused by lack of opportunities," says Calderón. Mexico's new president also knows that competing effectively for private capital is essential to economic growth. "Unfortunately, our country is losing competitiveness and, with that, the capacity to attract investment and generate jobs."⁴

Calderón has complained that Mexico's labor code is "extremely rigid," with the cost of replacing an employee so prohibitive that jobs are not generated in

the formal sector. He also notes that salaries do not reflect productivity or efficiency in the workplace. For Mexico to compete for precious investment, its antiquated labor code must be reformed.

An ineffective fiscal program also stands in the way of job creation and economic competitiveness, and Calderón hopes to tackle new measures to improve both tax collection and fiscal spending. In his "100 Actions for the First 100 Days in Government" proposal, Calderón stresses a balanced budget that focuses on spending on investment over bureaucracy, especially with regard to redundant or duplicate services. To increase tax collection without increasing the burden on filers, Calderón also proposes a simpler payment system. Furthermore, moving Mexican workers into the formal labor sector should also aid tax collection. In other fora, he had advocated lowering income taxes from 29 percent to between 15 and 20 percent to better resemble international standards.

Inextricably linked to Mexico's fiscal health is the state of its public energy sector. As former secretary of energy, Calderón observes that despite minor reforms, Mexico's energy sector does not produce the quantity and quality of energy at competitive prices needed by a growing nation. He cites the prohibition on Mexico's oil company PEMEX from partnering with other companies, thus preventing it from tapping new sources of capital and technology that would be useful, including the 80 percent of the country's reserves that are found in deepwater fields. He has called for a major overhaul of Mexico's energy sector to make it more competitive and productive, in part by allowing PEMEX to reinvest more of its resources in exploration and infrastructure and by permitting it to make strategic alliances with other energy companies.

To overcome structural poverty and inequality, Calderón has pledged to expand the coverage of existing programs that have proven effective in addressing chronic deficiencies in housing, health services, and education. He also notes the importance of small and medium enterprises to the nation's economy, pledging new access to capital, technology, training, and government contracts.

Perhaps most important, Calderón has promised the strict application of the rule of law—from fighting corruption that strangles economic growth to confronting

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street crime and drug trafficking that threaten lives and institutions in Mexico.

A Test for Mexico's Political Class

Calderón has laid out an ambitious and comprehensive agenda for addressing his country's fundamental problems. Although most, if not all, of his prescribed programs will be the object of fierce partisan debate among the three major political parties, Mexicans must demand that their political leaders move from division to consensus and from debate to action on the key issues that will define success or failure for their great nation.

To be sure, the prosperity and security of the United States will be impacted acutely by Calderón's success or failure. But Mexicans will bear the brunt of failure if their leaders do not work together to build a twenty-first-century economy. The fact that 10 percent of Mexico's labor force has been forced to abandon their nation to survive demonstrates the staggering human toll of ineffective and indifferent leadership.

Some cynics have even speculated that the ability to "export" 10 million Mexicans who do not draw on basic public services but instead remit \$30 billion back to their families props up the status quo and is a boon to a

complacent, privileged class of Mexicans that, not surprisingly, fails to see the upside of radical change. However, if Mexico's powerful elite does not help Calderón build a national consensus around sweeping structural reforms, it may find itself forever trapped in the third world, with an entire generation of eager workers having no choice but to build a life in someone else's country.

AEI research assistant Megan Davy and AEI editorial associate Nicole Passan worked with the author to edit and produce this Latin American Outlook.

Notes

1. James C. McKinley Jr., "Mexico's Leftist Candidate Says He'll Never Concede Defeat," *New York Times*, July 15, 2006.
2. Guillermo Perry, Francisco H. G. Ferreira, and Michael Walton, *Inequality in Latin America and the Caribbean: Breaking with History?* Report of the World Bank, October 2003, table 1, p. Summary-3.
3. World Bank, "Doing Business Project," available at <http://rru.worldbank.org/DoingBusiness> (accessed July 17, 2006).
4. Felipe Calderón, "Empleo para Todos" [Jobs for All], Felipe Calderón: Presidente del Empleo (campaign website), available at www.felipe.org.mx/fc/propuesta/empleo.aspx.