

Mexico's Turn away from Neo-liberalism*

Prabhat Patnaik

President Lopez Obrador of Mexico in his inaugural speech itself had called neo-liberalism a “disaster” and a “calamity”. The Leftist political party, MORENA, to which he belongs, had stated in its programme: “The global economic crisis has revealed the failure of the neo-liberal model. The economic policy imposed by the international financial organizations leads to the fact that Mexico is one of the countries with the slowest growth.” MORENA’s programme had proposed instead that the “State should assume responsibility to lead development without foreign interference”.

With this perspective, Obrador has been putting in place a range of economic changes that represent a turn away from neo-liberalism and the re-institution of a dirigiste regime that had become complete anathema for that country’s leadership for the last several decades. Not surprisingly, he is being attacked by the Western press for this temerity, with the London-based magazine *The Economist* in its end-May issue putting his picture on its front cover under the title “Mexico’s False Messiah”.

What is striking about this western media attack is that, being aware of the cul-de-sac to which neo-liberalism has brought the world economy, they show much greater sympathy for moves away from the neo-liberal regime when it comes to metropolitan economies; but on any shift away from neo-liberalism in a third world economy they come down like a ton of bricks. This is not just a duplicitous attitude; it exemplifies the phenomenon of imperialism, where an income compression of the third world is considered necessary for an inflation-free recovery in the metropolis. And, despite having a per capita income well above South Asia or sub-Saharan Africa, Mexico is still very much a part of the third world, indeed an important part of it because of its being an oil producer.

In fact Obrador’s reforms are particularly significant in the oil sector. While the demand of international capital has been for a further privatization of the oil sector, the Obrador government has moved precisely in the opposite direction, towards its re-nationalization. To this end, it has made it mandatory for the national power-grid to buy oil first from the State-owned company Pemex rather than from private oil companies. Even in oil exploration it has halted all biddings for oil exploration rights that were open mainly to foreign private companies.

Mexico had stopped investing for over four decades in expanding domestic oil refinery capacity. It used to send crude oil to the U.S. to be refined there. The Obrador government has started setting up new refining capacity in Mexico to be run by Pemex, which is also receiving financial assistance from the government. Thus in every activity connected with the oil sector, from exploration to extraction to refining, the Obrador government is expanding the role of the Mexican State at the expense of foreign private interests.

This has important fiscal implications as well. The profits of Pemex come to the State exchequer; the smaller is the relative size of Pemex, and the less the profits from this source, the more the government has to rely on other sources of revenue for its spending. And an important other source has been the tax on oil domestically (exactly

what the Modi government has been doing in India). The privatization of the oil industry in Mexico therefore has meant larger taxes on oil, and hence higher oil prices, so that Mexico, despite being a major oil producer (it produced 2 percent of the total world oil output in 2019) has the highest domestic oil price in the whole of North America. Obrador has for long been opposing high oil prices, and the expansion of the State sector in oil is a means of giving substance to that opposition.

The oil sector is not the only one where Obrador has reversed neo-liberal policies. All new mining concessions to foreign, notably Canadian, companies have been halted; and there are plans to nationalize Mexico's lithium reserves.

Alongside efforts to recapture control over Mexico's natural resources, the Obrador government is also planning to recapture control over its Central Bank. Even when the governor of the Central Bank is appointed nominally by the government of the country, the person appointed to this post is typically one who is acceptable to international finance. And the monetary policy followed by such a person invariably prioritises inflation control over the growth of the economy. To criticise such a monetary policy does not mean that inflation should be ignored. It means tackling inflation differently, other than through cutting back on growth that a tight monetary policy entails, and hence an alternative perspective on inflation. This has been a hot topic of debate in Latin America, and a few words on it are in order.

The acceleration of growth in a third world economy faces several real structural constraints, primarily arising from the agricultural sector, where not only does output respond sluggishly, but its increase requires conscious State intervention in the form of land reforms, provision of inputs and other such measures. An effort to boost the economy's growth rate therefore immediately gives rise to inflation because of the bottleneck arising from the agricultural sector. If inflation control becomes the dominant objective, then such control gets exercised through cutting back the economy's growth-rate, the moment inflation rears its head, which means keeping the economy forever in a low income trap.

To get out of this trap, monetary policy, and economic policy in general, must cease to be restrictive and must aim to promote growth. If inflation does arise, then it has to be tackled separately without jeopardising growth prospects, by direct intervention in the market through rationing and "supply management"; and through increasing the output of the bottleneck sector through direct State-initiated measures.

In the neo-liberal period, needless to say, inflation-control is accorded priority over all other objectives, which means keeping the economy forever confined to the low-income trap. This is not because of some mistaken academic understanding; it is the modus operandi of imperialism, which insists on keeping third world incomes compressed, so as to release existing agricultural commodities (or other agricultural commodities to which land can be diverted from existing ones) for metropolitan requirements, without undue price-increases in such commodities. The seemingly innocuous debate over monetary policy therefore is really about overthrowing a regime that imperialism foists over a third world economy in the neo-liberal era. And this is the task that President Obrador has taken upon himself, inviting derision from the western media for adhering to "statism, nationalism and nostalgia for the 1970s" (in the words of *The Economist*).

How successful Obrador will be in overturning the neo-liberal agenda remains to be seen, but imperialism will not find it easy to derail his project. While there is still some time before the Presidential elections in Mexico, the recent elections to the legislature and for provincial governors show that he enjoys substantial popular support. And what is more, he has also enlisted the support of other political parties like PRI that had come out of the Mexican revolution and ruled Mexico for decades, and to which the entire Mexican Left of today had once belonged (the Communist Party of Mexico founded by M.N.Roy in the wake of the Bolshevik Revolution does not exist any more). It will be difficult therefore for imperialism to stage a parliamentary coup, as in Brazil against Lula.

What is happening in Mexico has important lessons for India. Even as the metropolis itself is making efforts to shake off neo-liberalism, it would attack any third world country that seeks to do so, and would use all kinds of weapons for this purpose, from propping up ultra-Right political formations against such efforts, to creating divisions in the people's camp, to using economic warfare as in Cuba (and in extreme cases even military intervention). But if the people remain united and thereby enforce unity among a substantial section of the political formations, all these manoeuvres can be defeated. Overcoming neo-liberalism has become an urgent necessity for countries like ours; and the people must be mobilized towards this end.

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