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Mexico's Sword of Damocles

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The country could be in serious trouble if its executive ever manages to use the sweeping powers entrusted to him (or her).

THE YEAR 2024 WILL BE A HOT ONE FOR ELECTORAL politics in North America. The US election will likely feature a candidate who is distracted by three, maybe four, trials on rather serious charges, as the country is increasingly divided. Canada's next election must happen by October 2025, but the exact date has not been set, and is likely to be a surprise. And Mexico will feature an unprecedented contest between a left-wing coalition and a broad-tent coalition of Mexico's big three rival parties, which have dominated the landscape for the last 30 to 100 years.

For the past five years, Mexico has suffered under the presidency of leftist Andrés Manuel López Obrador (who goes by the moniker “AMLO”). AMLO’s rule has featured a combination of populism, the dismantling of checks and balances, and increased economic statism, in a country already known for its heavy dirigiste hand and weak rule of law. Despite lackluster growth, increased corruption and violence, and recurring migrant crises, Mexico seems poised to continue the rule of AMLO’s *Morena*, self-described as an anti-neoliberal and populist party. Under Mexico’s constitution, AMLO is limited to one term, so his protégé, former Mexico City governor Claudia Sheinbaum, is running.

Two things are noteworthy in Mexico’s 2024 presidential election. First, there already exists a traditional left-wing party, the PRD (*Partido de la Revolución Democrática*), founded in 1989; yet, it was apparently not leftist enough, hence the creation of the farther-left *Morena* coalition in 2011. Second, the opposition to *Morena* is itself an amalgam of strange bedfellows, the three major Mexican political parties, which have wrestled each other for power over the last 85 years. The first is the center-left PRD. The second is the center-right PAN (*Partido de Acción Nacional*), which ruled from 2000 to 2012, after breaking a 75-year single-party stranglehold. The third is the aptly-named Party of the Institutionalized Revolution (PRI), a corporatist umbrella that ruled Mexico for more than 70 years, in what Mario Vargas Llosa dubbed “the perfect dictatorship.” It offered unified rule under a party instead of a strongman, with a veneer of democracy and respectability, mostly buying support rather than bullying.

But a third puzzle emerges from the Mexican election: why aren’t levels of state intervention *even higher* than they currently are, after six years of leftist populist rule? And will things get even worse if *Morena* is emboldened by a second term?

For the past 40 years, Mexico has remained steadily in the second quartile of economic freedom of the world (in what is considered a moderately free economy). This breaks down into interesting subcategories: Mexico scores high on sound money and freedom to trade internationally, as well as the size of government. (It is higher than the US on that last metric!). It scores moderately on regulation, and abysmally (below the world

average) on rule of law, judicial effectiveness, government integrity, and defense of property rights. It scores in the bottom 30% of the world in terms of corruption. For all this, Mexico's central government spends "only" about 30% of GDP, with roughly the same amount spent by state and local governments. (By comparison, the US federal government spends roughly 25% of GDP, with another 20% spent by state and local governments; with the addition of regulatory compliance, this recent average of 45% of GDP peaked at almost 60% of GDP during the COVID spending frenzy).

Perhaps it is a blessing that Mexico enjoys middling state capacity. Were Mexico to enjoy greater state capacity, the presidency would likely suffocate the economy through more effective central planning.

As a consequence of its institutional environment, Mexico still lags, with a GDP per capita of only about \$10,000/year (one-seventh, roughly, of its northern neighbor's). An estimated 10% of Mexicans live abroad, seeking economic opportunity in more hospitable environments. For those who stay, almost 60% of economic activity takes place in the informal economy, contributing about a quarter of GDP.

Mexico is by no means a disaster on the world scale. But its government, society, and institutions could do far better for its people and economy—and, simply so, by reducing corruption and increasing economic freedom.

The wonder, unfortunately, is not that Mexico is doing so poorly—but that it is doing *so well*, and that its state intervention is so moderate, compared to what it could be. Indeed, a Sword of Damocles hangs over the Mexican economy, in the form of constitutional socialism and sweeping economic powers entrusted to the executive, with no formal checks and balances.

Mexico's Constitutional Socialism

Mexico's constitution grants extensive economic planning powers to the national government (and, effectively, to the president).

The first post-revolutionary constitution, in 1917, granted the Mexican state sweeping powers for “a system of national democratic planning” and the definition of property rights, private and communal. From the 1930s to the 1980s, various voices called for an increased and guiding role in the economy by the state, to foster development and import substitution industrialization, in line with dependency theory and the economic sophisms of the day. These powers were amplified with the constitutional reforms of 1983, which consolidated and formalized earlier powers; some

say the national economic planning was inspired by the Cuban constitution of 1976.

Four articles (25, 26, 27, and 28) now constitute the basis of Mexico's economic model, which gives a concurrent role to the private sector, the state, and the social sector, in productive activity. Thus was a mixed economy formally established. Specifically, the Mexican state is given the mandate and the power to "plan, conduct, coordinate, and guide national economic activity" towards the common good (as defined by the state). In more concrete terms, the state was ordered to produce six-year National Development Plans. Under the constitution, the state owns "national" resources, then cedes legal ownership to individuals, thus creating private property (Bastiat, Locke, Rand, and others would shudder!). The state enjoys a monopoly on "strategic" economic sectors, while also regulating private economic action.

National Economic Planning is supposed to be democratic. In practice, however, there are few checks and balances on presidential powers. The lower chamber may reject the plan and return it to the executive, but has no power to modify it. What is more, the plan explicitly gives the state powers to guide the economy and curb markets (and thus private economic action). Individuals find themselves subsumed into corporatist groups amongst which the state arbitrates and picks favorites. Naturally, corporatist bosses, from union leaders to crony capitalists, influence the state, while the voices of citizens, consumers, and entrepreneurs are silenced.

Informal Constraints and a Sword of Damocles

In light of the sweeping powers vested in the Mexican national government (and especially the presidency), it is surprising that Mexico does not suffer from *more* interventionism, and that it ranks as high as it does in economic freedom.

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must wonder if the Mexican people would accept such constraints, or comply (considering that more than half of the economy is informal).

In the meantime, under presidents of the center-right, corporatist center, center-left, or hard left, Mexico's constitutional socialism looms over the economy like a Sword of Damocles. It's unfortunate that Mexico is poised to elect another socialist who does not understand markets, rule of law, and the blessings of liberty. But the person in power may not matter as much as the unlimited power vested in that office.

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