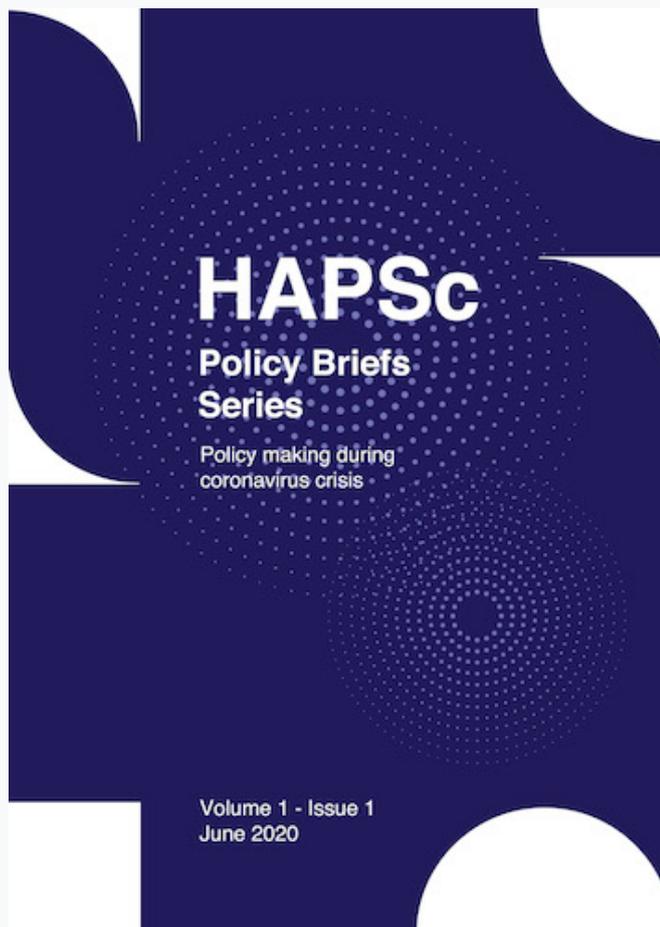


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### Mexico's "Fourth Transformation" after the pandemic: Windows of opportunity for adaptive policies

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## Mexico's "Fourth Transformation" after the pandemic: Windows of opportunity for adaptative policies<sup>1</sup>

César Morales Oyarvide<sup>2</sup> & Antonio Villalpando Acuña<sup>3</sup>

### Abstract (in English)

The spread of the SARS-CoV-2 virus, the infectious agent that caused COVID-19, has put a level of pressure on governments and their structures only seen in times of war. The governments of the world face a health challenge that will have profound economic consequences, which requires an effective response to contain the contagions of the disease and, at the same time, an unprecedented economic effort to preserve jobs, value chains and lifestyles. This reality has reached Mexico during the administration of Andrés Manuel López Obrador, who, since the beginning of his presidential term on December 1, 2018, has launched an ambitious set of austerity measures aimed at releasing resources for cash transfer programs and infrastructure projects. The struggle between a model that bets on reducing the size of the State and that of public spending and an economic reality that will demand more public investment and state intervention will define the course of Mexico's future public policies. The authors discuss a new world full of windows of opportunity to promote a more ambitious social, fiscal and security policy agenda, on which depends the Mexican government ability to avoid the worst social consequences of the pandemic and the economic crisis.

### Abstract (in Spanish)

La propagación del virus SARS-CoV-2, el agente causante de COVID-19, ha ejercido un nivel de presión sobre los gobiernos y sus estructuras como solamente se había visto en tiempos de guerra. Los gobiernos del mundo enfrentan un desafío sanitario que tendrá profundas consecuencias económicas, lo que demanda una respuesta eficaz para contener los contagios de la enfermedad y, al mismo tiempo, un esfuerzo económico sin precedentes para preservar empleos, cadenas de valor y estilos de vida. Esta realidad ha llegado a México durante la administración de Andrés Manuel López Obrador, quien, desde el comienzo de su mandato presidencial el 1 de diciembre de 2018, ha puesto en marcha un ambicioso conjunto de medidas de austeridad a fin de liberar recursos para programas de transferencias y obras de infraestructura. La pugna entre un modelo que apuesta por reducir el gasto del Estado mexicano y una realidad económica que demandará mayor inversión e intervención estatal definirá el rumbo de la política pública de México. Los autores discuten sobre un mundo nuevo lleno de ventanas de oportunidad para impulsar una agenda de política social, fiscal y de seguridad más ambiciosa, de cuyo aprovechamiento depende el poder evitar las peores consecuencias sociales del binomio pandemia-crisis económica.

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## Introduction

The COVID-19 pandemic came to Mexico at a time when the role of the State in the economy and society and the scope of its actions are undergoing a profound review. In 2018, President Andrés Manuel López Obrador (AMLO) took office and implemented a government program that he called the Fourth Transformation (4T), following the Mexican War of Independence, XIX<sup>th</sup> century Reform and XX<sup>th</sup> century Revolution. Little can be predicted about the ramifications of the crises caused by the new coronavirus. What seems like a fact is that, in the times to come, *lopezobradorismo* will face circumstances that will demand a State with greater capacity for intervention, but flexible enough to respond to changing circumstances. The future of public policies in the 4T will be disputed between two extremes: defending the programmatic vision that was established in 2018 and an environment that will demand problem-focused and, therefore, adaptive governance.

### **Pandemics: disruptive forces and windows of opportunity**

A well-known effect of pandemics is their ability to hinder large collective projects. Among other things, a pandemic was responsible for the Athenians losing the Peloponnesian war, for Justinian to be unable to reunify the Roman Empire, and for the Vikings to stop exploring America. Despite the outrages of some local governments, the integrity of the federal project in Mexico is unlikely to be jeopardized because of this epidemic. However, the underlying process -the multiplication of new problems and an environment with a high level of uncertainty- will create conflicts between the programmatic and somewhat rigid way of governing that has characterized the 4T and the need to solve specific problems on the fly and adapt several of the Mexican government's assumptions to the new reality.

One of the most useful theories to analyze processes of change in public policies such as the one that Mexico will foreseeably experience in the coming years is the multiple streams framework and windows of opportunity (Kingdon, 1984). The basic idea behind this theory is that there are times when certain circumstances change the priority and interpretation of public problems, offering an opportunity to reevaluate solutions that would have been discarded in any other moment. In this case, the circumstance that opens the window of opportunity is the pandemic itself, but also its effects on the economy, the ecology of the cities and the ideological structure of the citizens. As it was not seen decades ago, the future will allow us to speak of a return to strong governments and interventionist States. The new circumstances will open the possibility of reviving the rise of the social State in the North and of accelerating its development in the Global South (Piketty, 2020). However, the dimension of this window of opportunity will only be comparable to the magnitude of the social

conflicts and the challenges that governments will experience as a result of the pandemic, which will be articulated both ideologically and in the most daily and material way of living.

In “The History of a Crime”, Victor Hugo wrote that “one can resist the invasion of an army, but not the invasion of an idea”. This phrase communicates in a splendid way the times that the people and their governments are going to go through in the coming years. In the future, two ideas will reemerge with colossal force: authoritarianism and economic heterodoxy. The portrait of East Asian societies, both less liberal and more able to coordinate their citizens, will leave a lasting impression on the minds of the most fearful citizens while giving the radical right the attention it needs to vindicate, as if it were a virtue, the controlling mania of its most visible representatives. At the same time, the breakdown of health systems, the rising unemployment and the loss of confidence in the markets will raise the need to revive economies through the centralization and nationalization of services, public investment and the introduction of new fiscal pacts. These two ideas will shape the arena in which all future public policy reforms will be discussed.

#### **“Fourth Transformation” policies after the pandemic**

The tension between authoritarianism and economic heterodoxy will exert tremendous traction on a basic dimension of the shaping of public policies: the ratio of winners to losers.

This will be especially noticeable in one particular field of State intervention that the 4T has privileged: social policy. So far, the main social policy tool of the 4T government has been the direct transfer of resources. In the government's programmatic vision, the *motto* “putting the poor first” has meant, with good reason, prioritizing certain groups that have been neglected for decades, especially in the rural world, as beneficiaries of government cash transfers. However, after the COVID-19 crisis another actor will enter the Mexican scene: the vulnerable population. We understand “vulnerable population” as those people who maintain a situation of economic insecurity such that a shock like this crisis will plunge them back into poverty. This is a social group that has had significant growth in Mexico and Latin America, especially in the cities, but which remains pretty much outside the government priorities (López Calva et al., 2014). So far, the Mexican government's commitment has been to redouble the protection of the most marginalized by increasing the funding and scope of its flagship social programs. However, in a context of “new poverty”, these types of focused programs funded by all taxpayers - with concentrated benefits and diffuse costs - such as *Jóvenes construyendo el futuro* (a training and apprenticeship program for young people) may be viewed with suspicion by millions of unemployed people. Likewise, programs such as *Sembrando vida* (a Keynesian-type program aimed at increasing agricultural and forestry production) could arouse anger as rural and

semi-urban areas are the least affected by the epidemic. New circumstances are likely to generate pressures towards a revision of the government's social programs, of the universe of its beneficiaries (“putting the poor first”, yes, but which ones?) and a recomposition of the social groups that support *lopezobradorismo*.

Just as targeted transfers will become more problematic, redistributive programs and policies - with diffuse benefits and relatively concentrated costs - will have their best window of opportunity in the last 50 years and no government should hesitate to use its resources to fund universal welfare systems. In the case of Mexico, the reform to article 4 of the Constitution, which constitutionalizes some social benefits such as scholarships for impoverished children and old-age pension, and the creation of the *Instituto de Salud para el Bienestar*, a controversial institution that was created this year as an attempt to start building a universal health care system, were some recent steps towards that objective.

However, the pandemic will generate a unique circumstance to discuss other major issues, such as breaking the link between basic rights and working conditions, since nowadays, the access to several social benefits in Mexico depends on whether or not a person has a formal job. In addition, the pandemic might allow us to undertake the problematic lack of coverage of our social security system, which in 2018 only served 42.7% of the population (CONEVAL, 2018). To alleviate the effects of the COVID-19 pandemic and, above all, to protect the Mexican population against its return, the government will need to implement some initiatives that had been discarded in the recent past, such as an unemployment insurance. To unnecessarily delay these processes, by passing timid reforms or not passing them at all, would give authoritarian thinking a perfect breeding ground: one characterized by a high level of uncertainty.

The way to finance these policies will also require adapting some of the assumptions of the 4T. So far, to raise taxes or to acquire public debt as a way to increase public funds have been ruled out by the Mexican government, relying on efficiency and savings as a source of resources. This economic and fiscal orthodoxy, which worryingly resembles the recipes applied in Greece and southern Europe after the 2008 financial crisis, has been called “republican austerity”. The difference between *lopezobradorista* austerity and that imposed by the Troika a few years ago is mainly presented in moral terms: while the latter hit social spending, the former was presented as a way to finance social projects by reducing government luxuries and public corruption. Recently, this difference seems more rhetorical than realistic. Be that as it may, the economic and social crisis caused by the new coronavirus will show the limits of republican austerity soon. At the same time, the effects of the pandemic will generate a window of opportunity in the form of a moment of solidarity and national unity that could be used to call for a new social pact that translates into a progressive fiscal reform. It

will be the time to discuss, as it already occurs in other countries, new taxes on wealth and inheritances and a global agreement against fiscal evasion. Given the obesity epidemic in Mexico and its pernicious effects in the increase of COVID-19 mortality in the country, it will also be time to consider a higher tax on sugary drinks. Mexico continues to be the country that proportionally collects the least taxes in the OECD and one of the last in Latin America (OECD, 2019). If we take into account the loss in oil revenues during 2020, to take advantage of this opportunity will be more urgent. Consent to these new taxes will be more likely if those resources fund general benefits and the Mexican government continues to increase its collection efficiency, since any kind of fiscal privilege will be interpreted as an attack on collective security in the post-COVID world.

In terms of public security, the future will also bring new challenges that will push the government to take bolder measures to regain peace. The new levels of unemployment are likely to favor drug trafficking organizations, a sector of the economy whose demand will surely increase. Thinking about the effect of a vertiginous growth in the demand for drugs, two situations seem equally possible: either the cartels are reunited and come to a new agreement to “administer the abundance”, or, the drug violence is intensified, given the gangs’ new incentives to gain more *plazas* and their access to a quasi-infinite industrial reserve army. This ambiguity may bring into question the legalization of drugs, as well as their regulation; the former considering a potential source of income, and the latter considering that, prior to the pandemic, drug and alcohol use had already increased by a factor of up to four in just five years in Mexico (Comisión Nacional contra las Adicciones, 2017). In this sense, the future will open a window of opportunity to contemplate the formalization of industries such as cannabis, whose commercialization could bring similar income to that of alcohol (Institute on Taxation and Economic Policy, 2019). In addition to the commercialization of drugs, the government will have to make provisions to face a new phenomenon: massive consumption. If addictions are not treated as a public health issue, job losses due to absenteeism, the new burden on the health system, and the effect on public safety in many cities would create a kind of “Mexican rust belt”. Tackling these problems will require a highly accurate and flexible public policy design.

### **Steel and bamboo: from program to adaptive flexibility**

From what has been said above it can be deduced that in the future the Mexican public administration will have to increase its performance in a dimension for which it was not designed: small adjustments and flexibility. Government change in Mexico has always involved a restructuring of the State: it is the time to create and disappear ministries and to plan, as if the future were known, the thematic axes of the incoming administration. The National Development Plan (PND), a policy instrument created

in the 1980s, is based on the assumption that everything is plannable, that no situations or actors will arise that cannot be channeled in terms of what that document establishes. Coupled with endemic levels of corruption, this inflexibility ends up causing government actions to have a diminished and delayed effect on what or those for whom they were intended. Similarly, it means that public resources cannot be assigned to any function other than the original one without first going through the parliament, regardless of how urgent the new circumstances are. The pandemic has done nothing but magnifying that problem.

Overcoming these restrictions will represent a monumental challenge for *lopezobradorista* orthodoxy. To achieve this, the erosion of the bureaucratic apparatus that has occurred throughout these first two years of AMLO's presidential term must be reversed and, at the same time, the government must be provided with more resources and a renewed framework for action that allows public money to be exercised with greater accuracy. To accomplish its goals, 4T must do so without compromising its essence: to fight corruption and to prioritize the poor.

"For I am harder than steel, I would break rather than bending," said *flamenco* singer Camarón de la Isla. So far, the 4T's way of governing seems to abide to that verse, as President López Obrador himself has said (Méndez, 2019). However, the challenges posed by the post-COVID-19 have changed reality in such a way that, in order to consolidate the transformation project that was proposed in 2018, the Mexican government must stop working like a steel sheet and start doing it more like a bamboo plant. Bamboo is as strong as metal, but more flexible, which has proven to be very useful in earthquake-resistant constructions. To resist the challenges posed by the pandemic, public policies must be like this material, capable of withstanding the worst storm without breaking. The building they will hold is none other than our country.

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