Why is Mexico not yet developed?

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Abstract

This work analyzes the economic performance of Mexico since 1950. It describes the process of rapid growth that occurred between 1950 and the early 1980s. It then shows the dramatic change of pace that occurred after the 1980s, with successive macroeconomic crises characterized by fiscal and current account deficits, inflation and devaluations. This period of macroeconomic instability was followed by a period of important structural economic reforms, including privatization and trade openness. However, despite all these reforms, the Mexican economy has not been able to return to a path of rapid and sustained economic growth, although it has managed to maintain macroeconomic stability. We explore some possible answers to the question on why Mexico has not been able to reduce the income gap with its North American neighbors and trading partners. We discuss alternative answers that have been posed in the literature, including the role of micro and macroeconomic policies, the entrance of China to the WTO, as well as the lack of investment in the Mexican economy.

Keywords: Mexico, Mexican economy, Economic Growth, Development, Middle income trap, Latin America

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1. Introduction

Mexico's economic performance is a mystery to many analysts: how is it possible that Mexico has not managed to take off despite having favorable conditions to do so, being close to such a powerful market as the United States, having carried out countless structural reforms, enjoying political and social stability, and having trade agreements with so many countries and regions of the world? What is happening with Mexico? Why has it not managed to become a developed country? This chapter attempts to explain what has happened to the Mexican economy in recent decades and tries to offer an answer to the previous questions. To do this, a brief review of the performance of the Mexican economy from 1950 to date is presented.

Mexico is a country that has had a very peculiar economic trajectory: between 1950 and 1981, it grew almost constantly at high rates. During this period, Mexico went from being a relatively poor economy to consolidating itself as a middle-income country with an apparently promising future. However, from 1982 to date, its growth rate has slowed down significantly, and it has gone through various episodes of crisis and macroeconomic instability. In response to the profound crisis of the 1980s, Mexico initiated a series of structural reforms that included a rapid opening of the economy, a change in its pattern of insertion in international trade (from being an oil-exporting country to being a country with a clear manufacturing orientation) and a widespread privatization of public companies, among others. These reforms brought some degree of macroeconomic stability at the beginning of the 21st century, but they have been unable to improve the path of mediocre growth in which the country has been on since 1982. In recent years, Mexico has also undergone significant political changes: in this century, it has already been governed by three different political parties. Despite this, the country seems unable to find the way to ignite growth and to escape from the middle-income trap in which it has now been stuck for more than forty years.

Alongside this introduction, this work is organized as follows. Sections 2 to 4 present a chronological description of the most important economic events in Mexico in recent decades. The sections are divided into three major periods: 1950-1981, a period of rapid growth; 1981-2000, a period of stagnation and macroeconomic instability; and 2000-2023, a period of stability with low growth. Section 5 briefly reviews some of the hypotheses that have been proposed to try to explain the mystery of the low growth of the Mexican economy. Although a single and definitive answer to the question in the title is not offered, some alternatives are ruled out and some factors that could help us better understand what is happening are identified. We conclude with some final comments.

2. Mexican miracle? 1950-1981[2] [3]

The Mexican economy had a very favorable performance between 1950 and 1981 (Figure 1). The growth of total GDP, GDP per capita, and GDP per worker was remarkable. The economy grew at rates above an annual average of 6%. Even though the population was also growing at a very high rate, GDP per capita and GDP per worker were able to grow in those years at rates above 3% per year. Because of this, part of this period was labeled as "the Mexican miracle." The per capita income of Mexicans practically tripled in the period, while product per worker grew close to 170%. These were years of economic growth, industrialization, urbanization, and, in general, economic progress. Total poverty and extreme poverty were reduced significantly (Figure 2). Although at first glance it might seem like a very homogeneous period, it was not. We can break down the economic performance of those years into three sub-periods: 1950-58, 1958-1970, and 1970-1981.

The first of these sub-periods was still characterized by some macroeconomic instability. Inflation in those years was relatively high, partly due to international factors (such as the Korean War), and Mexico incurred in some trade imbalances. As a result, the exchange rate parity could not be sustained and the peso suffered a significant devaluation in 1954, going from $8.65 to $12.5 pesos per dollar, a level at which it remained fixed until 1976. Despite this, economic growth was high, and income and welfare levels were rising. The Mexican economy took advantage of the international situation and continued its process of industrialization. It can be said that in this period the foundations were laid for sustained growth and stability in the following sub-period.

The years from 1958 to 1970 were, from a certain perspective, a golden era for Mexico's economic development. The economy grew significantly and managed to do so with macroeconomic stability (with low inflation and without significant fiscal or commercial imbalances). For that reason, this period is known as the "stabilizing development era." These were years of sustained growth and notable improvements in the living standards of large segments of the population. The low inflation levels allowed the fixed exchange rate to be sustained without any problem. During those years, the country experienced fast growth and saw the creation or strengthening of social security institutions that sought to offer something akin to a Welfare State. Mexico made its presence felt in the world and organized the 1968 Olympic Games and the 1970 World Cup. Everything seemed to be going

[2] The periodization we used differs from those that have been used in previous literature. In this case, the elements that guide our periodization are growth and macroeconomic stability. Within each period, when necessary, we identify shorter subperiods. Throughout sections 2 to 4 we omit some bibliographical references. At the beginning of each section, we make a brief reference to some works that analyze the relevant periods or subperiods in greater detail.

[3] For more details on this period, see Márquez and Silva (2014), chapters IV, VI and X in Solís (2000), chapters 5 and 6 in Moreno-Brid and Ros (2009), and chapters IX and X in Cárdenas (2015).

very well. However, towards the end of that sub-period, a series of problems and social contradictions began to surface.

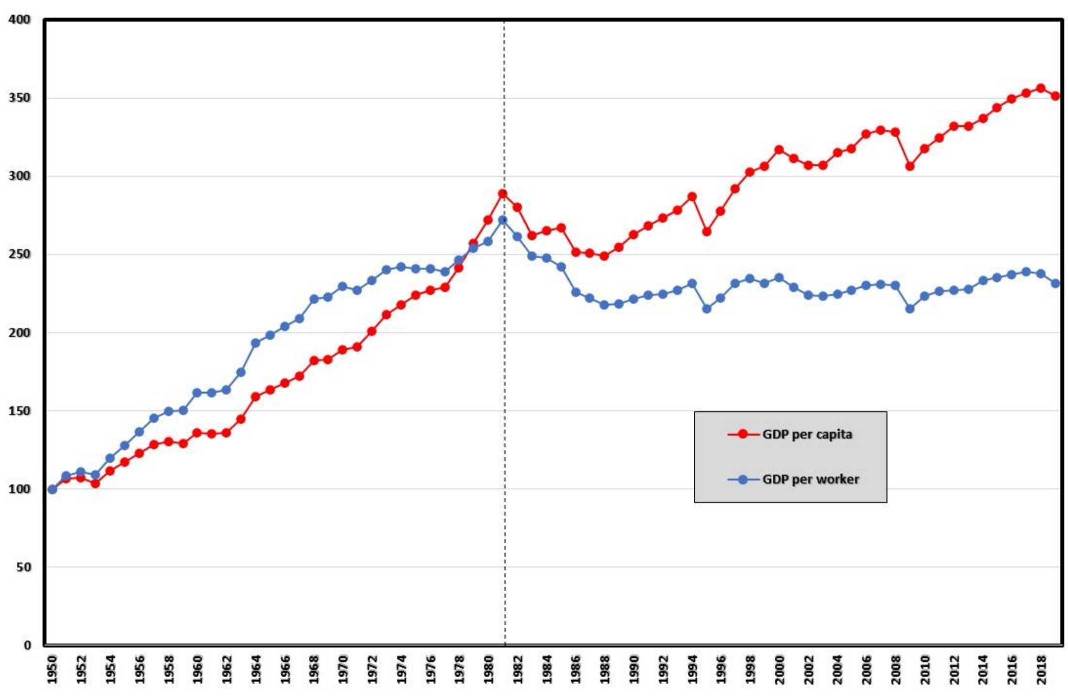
The growing Mexican middle class demanded access to housing, education, health, and, in general, better living conditions. The Mexican State made a significant effort to provide these services, but, at the same time, faced budgetary restrictions due to a relatively low tax burden. The goal of maintaining economic stability began to find a limit in the increasing demands of a social nature. Union movements in various areas (doctors, railroad workers, teachers, etc.) and the student movement of 1968 revealed that the supposed political and social stability prevailing in Mexico was more fragile than previously thought. The massacre of October 2, 1968, a few days before the opening of the Olympic Games, evidenced the contradictions that had been brewing within the economic, political, and social system.

The 1970-1981 period was full of contrasts. On the one hand, it remained a period of development and high economic growth; on the other, it was precisely in those years that the macroeconomic imbalances that ended up deeply affecting the Mexican economy in subsequent years were formed. This was the result of trying to continue stimulating the economy to meet growing social demands and not handling the structural weaknesses of the economy (particularly fiscal ones) that had been accumulating over the years.

The government that began in 1970 understood that the social problems of the last years of the so-called "stabilizing development" were in response to the growing and unaddressed demands of different sectors of society. They also knew that part of these problems was the result of having experienced fast economic growth in previous years without having achieved a significant reduction in social inequalities. Therefore, the new government focused on a project that it called "shared development," with which it hoped to at least partially resolve these concerns. The problem, however, was that the government attempted to do this without having enough fiscal resources. Therefore, during this administration, the fiscal deficit began to rise. In addition, the official rhetoric, with a relatively leftist vision, sharpened its distancing from the private sector, so the investment of this sector remained relatively low. This led to a growing participation of the State in the economy, which then led to an expansion of the fiscal deficit, an increase in public debt and, therefore, to inflationary pressures. Towards the end of this administration, in 1976, the accumulated pressures became unsustainable, the real exchange rate had appreciated significantly, and the government did not have enough foreign exchange reserves to continue financing a growing trade deficit. Therefore, at the end of that administration, the government was forced to devalue the Mexican peso for the first time in 22 years.

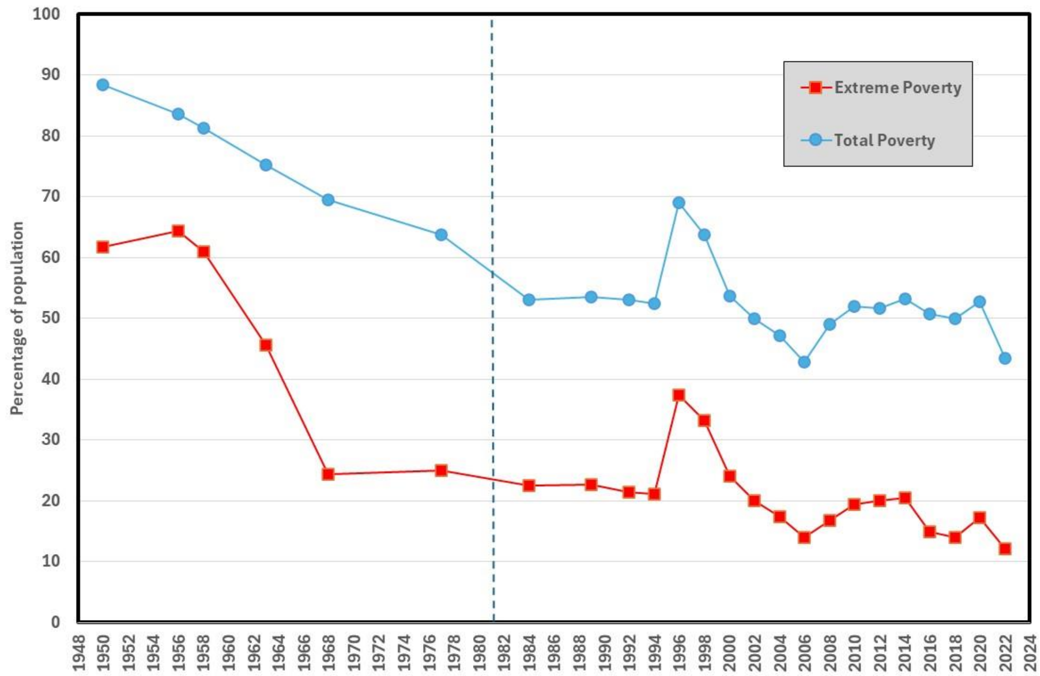
The government that followed it in 1976 had to face a period of economic and financial instability. The beginning of that administration was relatively slow as it tried to reestablish economic order. The attempt, however, did not last long. The fundamental problem was the discovery of significant oil deposits in the country. Mexico prepared, in the words of its then president, to "manage abundance." The country took up debt like never before under the argument that these investments were required to promote the country's development. It was assumed that future oil revenues would allow to pay that debt in the years to come. Mexico grew at a very high rate between 1978 and 1981, which is why this period came to be known as the "oil boom." However, this growth took place alongside terrible economic policy decisions, which led to excessive external public debt and to the overheating of the economy. Inflation accelerated and the exchange rate could not withstand the pressures derived from the enormous imbalances in the balance of payments. Naturally, the Mexican peso had to be sharply devalued in 1981, which in turn aggravated inflationary pressures (Figure 3). This period ended in disastrous circumstances. The hope of growth and economic development ended amid deep financial turmoil. The following year, 1982, would mark the beginning of a deep economic crisis and a long period of adjustment.

Figure 1: Mexico's GDP per capita and GDP per worker, 1950-2019
(Indexes, 1950 = 100)



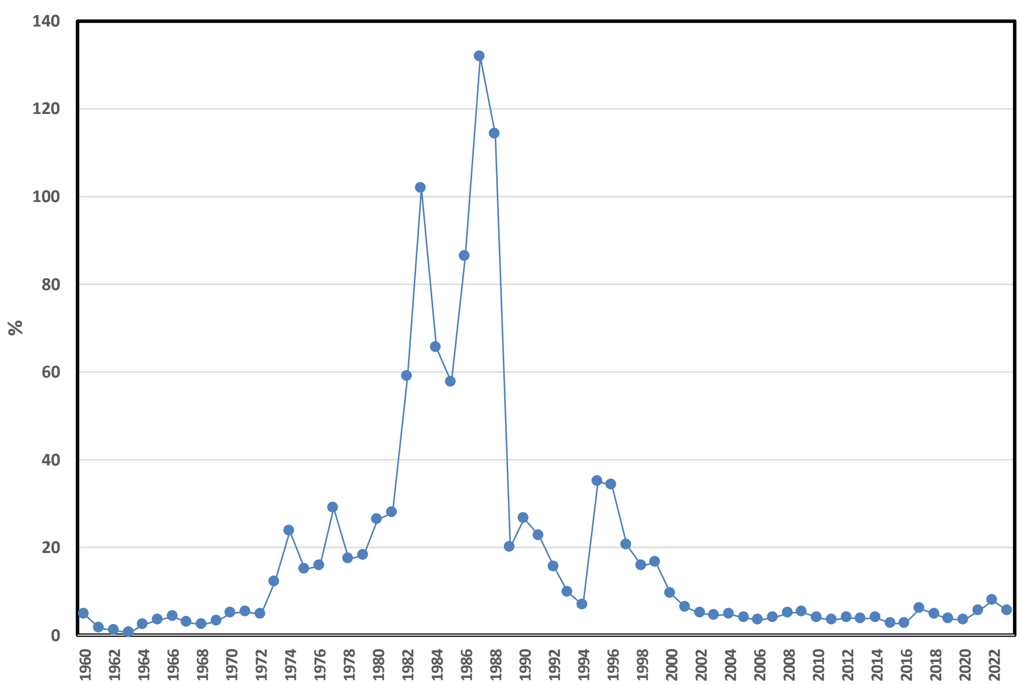
Source: Own elaboration with data from Penn World Tables 10.01. Feenstra et al. (2015)

Figure 2: Total and Extreme Poverty Rates in Mexico, 1950-2022
(as a percentage of total population)



Source: 1950-1989: Unofficial data from Székely (2005). 1992-2022: Official data from government sources.

Figure 3: Annual Inflation Rate in Mexico, 1960 -2023
(in percentage points)



Source: *World Development Indicators*, The World Bank.

3. Stagnation and instability. 1981-2000[4]

The period from 1981 to 2000 in Mexico was characterized by low growth with great macroeconomic instability. Throughout this period, total GDP and GDP per capita grew at an average annual rate of only 2.4% and 0.5%, respectively. For its part, GDP per worker decreased at an average annual rate of -1%.

The macroeconomic instability of this period took place at two different times. On the one hand, at the beginning of the period, the major twin deficits that had begun in the previous decade (fiscal and current account) gave way to enormous inflationary pressures and a constant depreciation of the Mexican currency. In addition, in a desperate act, the Mexican government took a decision that, in the long run, was extremely costly for the country: in September 1982, the President of Mexico decided to nationalize the private commercial banks and establish exchange controls. The situation was further complicated at the beginning of the eighties with the default on external debt incurred by the Mexican government. This decision triggered the debt crisis in much of Latin America, which was reflected in the so-called "lost decade" of the entire region.

The other moment in which Mexico underwent a significant episode of macroeconomic instability in this period was in 1994-1995 when, once again, the growing and unsustainable deficit in the current account gave way to one of the worst exchange rate crises that Mexico has had throughout its history. As in 1982, the country was on the verge of defaulting on its financial commitments, which was avoided thanks to the intervention and financing of the US government and the International Monetary Fund.

Although the beginning of the GDP decline began in 1981, the worst part of the macroeconomic adjustment occurred between 1982 and 1988 (see Figure 4). In that period, GDP remained practically stagnant and GDP per capita fell at a rate close to 2% per year. In those years, the Mexican government had to carry out a considerable macroeconomic adjustment to correct the imbalances that had been accumulating in previous years. Thus, fiscal austerity was the dominant feature of that period, which had to be accompanied by a significant real exchange rate depreciation that sought to reverse the trade imbalance with the rest of the world. Partly because of this, in 1985-1986 Mexico also took a significant turn in its trade policy by promoting, on the one hand, an unilateral trade opening (which implied a very significant reduction in tariffs for a significant group of products) and, on the other, by actively promoting its entry into GATT, something that had been debated for years and that had not occurred due to disagreements regarding the costs and benefits it would

[4] For more details about this period, see Márquez (2014), chapter XI of Solís (2000), chapters XI and XII in Cárdenas (2015) and chapters 7 and 8 in Moreno-Brid and Ros (2009). Aspe (1993) describes the initial reforms of the 1980s and early 1990s. Dornbusch and Werner (1994) explain the factors behind the crisis of 1994/95. Lustig (1998) contains an excellent description of the entire period of macroeconomic adjustment, the 1994/95 crisis and the social costs associated with both phenomena.

bring to the country. These two decisions were the first steps in the attempt to transform the way in which Mexico would integrate into global trade from here on.

As a result of the accumulated imbalances and the economic policy decisions that were taken to confront the difficult conditions faced by the country, inflation spiraled out of control and reached almost 150% annually in some months of 1987 (Figure 3). Towards the end of that year, the Mexican government convened what became known as the Economic Solidarity Pact, a heterodox measure that sought to curb inflation through an agreement between the private sector, the labor sector and the government to put an end to constant price and wage increases. This measure was accompanied by a sharp devaluation of the currency, which was subsequently anchored to try to contain price increases going forward.

The Economic Solidarity Pact contributed to stabilizing the economy somewhat and was followed by a second agreement called the Pact for Stability and Economic Growth in 1989. This plan was relatively successful, and it began to lay the foundations to recover stability and restart economic growth (Figures 3 and 4). Unfortunately, this program resulted in a significant loss in the purchasing power of Mexican workers' wages (Lustig, 1998). Also in those years, an ambitious program of economic reforms began that included the privatization of multiple Mexican State companies. In parallel, the government initiated a broad process of renegotiation of Mexico's external debt, which resulted in a significant decrease in the country's debt burden (Aspe, 1993).

Later, once stabilization seemed to be underway, the Mexican government raised the possibility of being part of a trade agreement with its northern neighbors, the United States and Canada. This agreement, eventually known as NAFTA (or TLCAN in Spanish), would be the first between countries with very different levels of development and promised to be a source of growth in the years to come. The then President of Mexico, Carlos Salinas de Gortari, announced that the trade agreement was the first step towards ending Mexican migration to the United States and achieving convergence in welfare levels between Mexico and its future trading partners. The Free Trade Agreement was signed in 1992 and approved by the respective congresses in 1993. The Treaty entered into force on January 1, 1994, with high expectations in Mexico as well as some doubts about its impact and usefulness in the United States.

The year 1994 turned out to be particularly intense for Mexico. On January 1 of that year, not only did the North American Free Trade Agreement come into force, but that same night there was a guerrilla uprising in the south of the country that demanded better conditions for the indigenous population (known as the Zapatista movement). The uprising was limited, but it contributed to creating an environment of political uncertainty. Later, on March 23, 1994, the presidential candidate and near-certain President of Mexico, Luis Donaldo Colosio, was assassinated in Tijuana, Baja California. This death was followed by other high-impact political assassinations that produced enormous political uncertainty.

This tension was not appeased even with the victory of the replacement official candidate, Ernesto Zedillo, who won by a large margin the presidential elections of that year.

Alongside the political instability of 1994, other factors gradually complicated the country's economic situation. At the beginning of the year, the Federal Reserve of the United States had begun an upward cycle of its interest rates. This movement, and its expected long duration, led to a readjustment in the portfolios of international investors. Thus, the increase in the attractiveness of interest rates in the United States, combined with heightened uncertainty in Mexico, caused a significant outflow of capital. The result was a significant loss of international reserves, since the exchange rate regime that the country had at that time was that of an exchange rate band system, but since the exchange rate had already surged with the assassination of the presidential candidate, the country effectively had a quasi-fixed exchange rate regime. Thus, the outflow of capital led to a continuous loss of international reserves that eventually collapsed the exchange rate at the end of 1994.

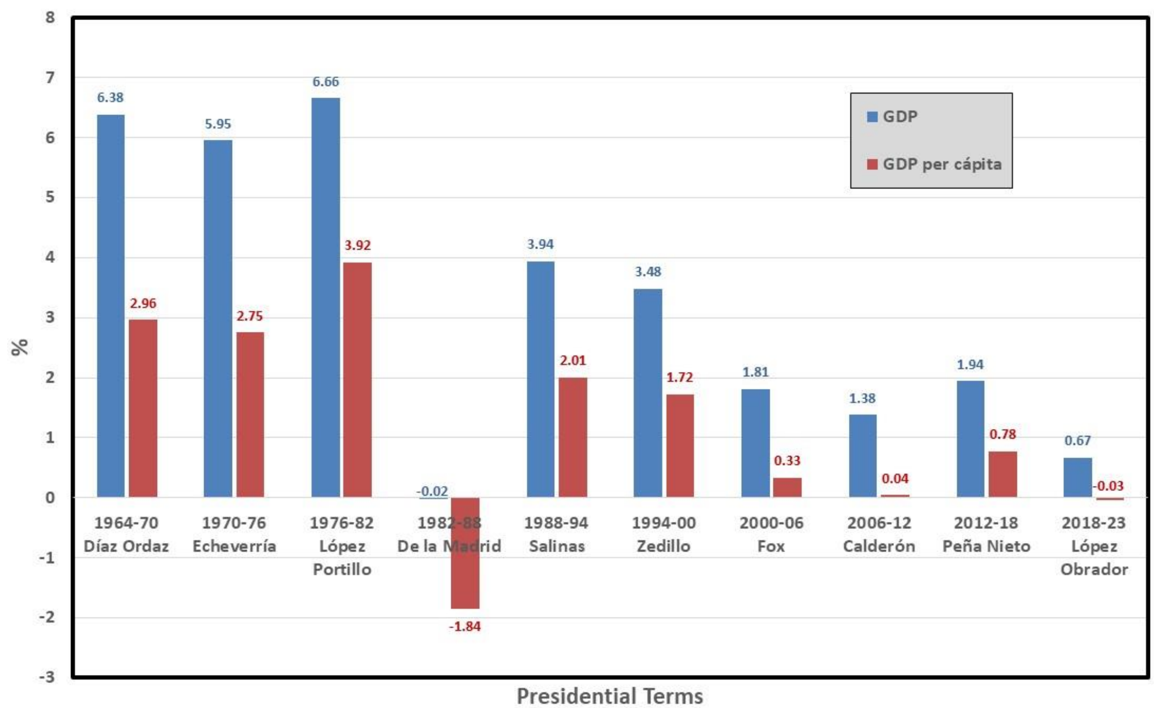
The traumatic devaluation of 1994 nearly triggered a new global financial crisis, as Mexico came close to declaring a moratorium on its international financial commitments. Fortunately, this was averted through the timely intervention of the International Monetary Fund and the U.S. government, which was keen to steer its recent trade partner away from such an event. However, this intervention required the Mexican government to commit to a severe adjustment program that included tax hikes, increased austerity, the adoption of a floating exchange rate regime, and significant increases in interest rates. Given that the preceding years had seen a credit boom driven by relative stability as well as incentives from the newly privatized commercial banks, this cascaded into defaults on recently issued mortgage loans, transforming the economic crisis into a sizable financial crisis. As a result, the economy contracted by 6% in 1995, inflation surged, and by December 1995 and January 1996, it exceeded 50% at annual rates.

In the years following the 1994-95 crisis, the economy began to gradually recover, largely because of a significant boom in foreign trade due to both the North American Free Trade Agreement and the adjustment in the real exchange rate, which made Mexican products more attractive abroad. Thus, from 1995 to 2000, during President Zedillo’s administration, the economy managed to recover and return to its previous growth trajectory. Thus, despite the deep economic downturn in 1995, the economy grew at an average annual rate of over 3% during Zedillo’s term (1994-2000), resulting in a per capita GDP growth of 1.7% per year (Figure 4).

The most significant cost of the adjustment, however, fell on the most vulnerable population. Consequently, between 1994 and 1996, the poverty rate in the country increased from 52% to 69%, while extreme poverty rose from 21% to 37% (Figure 2). By the end of the period, poverty and extreme poverty rates had returned to 54% and 24%, respectively. Although these values were still above their pre-crisis levels, they were much closer to the initial levels. In any case, by the end of the 20th century, the Mexican economy seemed poised for growth. Mexico had finally regained economic stability and implemented several of the economic reforms deemed essential for growth. The reality, however, turned out to be very different.

Figure 4: Annnual Average Growth Rates of GDP and GDP per capita in Mexico by Presidential Terms, 1964-2023

(in percentage)



Source: Own elaboration with data from *World Development Indicators*, The World Bank.

4. Stability with low growth. 2000-2023

The most recent period in Mexico has been characterized by having relative macroeconomic and financial stability although with low economic growth. The average annual GDP growth in this period decelerated to only 1.6% per year, which implies a per capita annual GDP growth of just 0.3% on average. GDP per worker, meanwhile, remained practically stagnant. The combination of these results implies that the only source of growth in this period came from a greater number of workers, either due to the growth of the adult population or the increase in the female labor force participation.

Macroeconomic stability was achieved thanks to some decisions taken in the previous period: the granting of autonomy to the Bank of Mexico in 1994 and the shift to a free-floating exchange rate regime that began in 1995, among others. The former allowed for maintaining relatively low inflation levels (single digit), while the latter prevented the central bank from having to intervene frequently in the foreign exchange market. This, in turn, allowed the exchange rate to better reflect underlying macroeconomic conditions. Exchange rate flexibility and the implementation of the North American Free Trade Agreement (NAFTA) allowed the trade balance and the current account to be characterized by moderate balances during the period. Additionally, a Federal Budget and Fiscal Responsibility Law was also adopted, which sought to provide a legal framework with which to avoid the fiscal excesses of the past. During this period, however, the Mexican economy was affected by one recession and two major crises. Unlike in the past, however, the two crises were primarily motivated by external factors.

At the beginning of the century, the Mexican economy faced a moderate but relatively prolonged recession. The recession took place alongside to a transition not only of government but also of political regime. In 2000, the party that had governed Mexico for about seven decades (PRI, by its acronym in Spanish) finally lost power. It was replaced by the National Action Party (PAN, in Spanish), a conservative party, which faced a recession of almost two years at the beginning of its administration. The recession was produced by changes in public policies due to the change of government, by the recession in the United States, as well as by a combination of restrictive fiscal and monetary policies that managed to bring inflation to under 5% in the first two years of the new government (Figure 3).

The PAN governed the country for two presidential terms, from 2000 to 2012. During their second term, Mexico suffered the ravages of the international financial crisis of 2008-09. In 2008, the Mexican economy contracted by 6% and poverty increased significantly (Figure 2). Although growth later recovered, it occurred at relatively low rates, resulting in nearly zero growth in GDP per capita (Figure 4) during that administration.

The third significant economic crisis during this period was linked to the COVID-19 pandemic. Mexico was one of the countries most affected by the pandemic, both in terms of health and mortality as well as economically. In 2020, Mexico's GDP contracted by 8.5% and poverty increased significantly again. Between 2021 and 2024, the economy managed to regain stability, but economic growth has been barely enough to return to the levels of per capita income that existed prior to the pandemic.

The only period in Mexico with less disappointing growth was from 2012 to 2018. After the two PAN governments between 2000 and 2012, the PRI returned to power in 2012. It brought a more aggressive agenda of economic reforms and managed to consolidate an important political coalition that was willing to support its project. The reforms of these years (which included labor, telecommunications, and energy reforms, among others) were perceived favorably by investors, resulting in some years of moderate growth (Figure 4). The PRI government, however, ended its term amid multiple corruption scandals and with high disapproval rates.

The PRI government was then replaced by Morena, a left-wing party which has governed the country since 2018, and which had to face the COVID-19 crisis. During the administration of this party, growth has also been disappointing (almost nil in per capita terms), although some important advances in terms of poverty reduction took place (Figures 4 and 2, respectively).

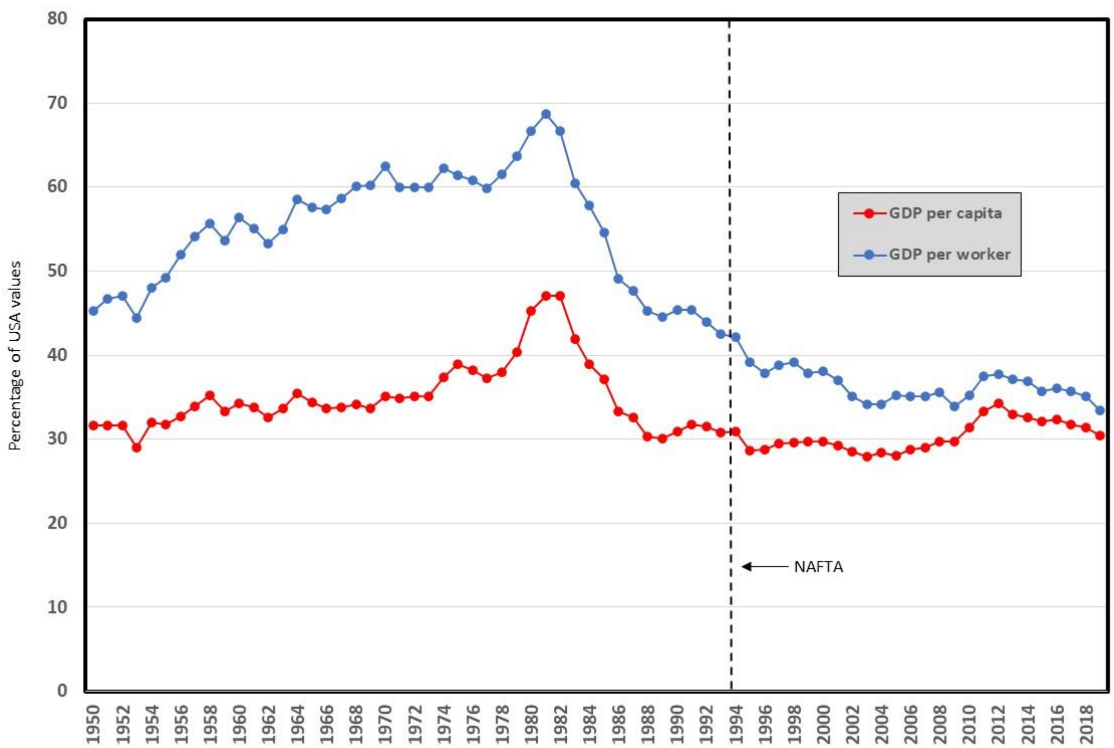
One thing that stands out about this period is the lack of convergence in productivity and welfare levels between Mexico and the United States. Initially, it was thought that the Free Trade Agreement between two countries with such different levels of development could help reduce the development gap between them. Figure 5 shows what has happened with per capita income and income per worker in Mexico relative to the United States from 1950 to 2019. The figures come from the Penn World Tables in their most recent version (10.01).

The figure shows that, with some ups and downs, Mexico's per capita income has remained stagnant at 30% of its corresponding level in the United States since 1994. This value is even slightly lower than its relative level back in 1950, which reveals the total absence of convergence in welfare levels between Mexico and the United States in the last 70 years. The only period in recent history in which Mexico managed to improve this metric was during the era of accelerated growth in the 1970s and, especially, during the so-called oil boom era. This improvement, however, was short-lived as it was completely reversed during the crisis of the 1980s described in the previous section.

The story in terms of productivity is even worse. While Mexico's GDP per worker grew relative to that of the United States between 1950 and 1981, since then it has not stopped contracting. While in 1950 a Mexican worker produced the equivalent of 45% of an American worker, by 1981 this ratio was nearly 70%. However, the crisis of the eighties brought this indicator back to its 1950 levels. In 1994, the year NAFTA came into effect, productivity in Mexico had already decreased to only 42% of that of the United States. From then to 2019, this ratio has continued to decrease, and by 2019 this indicator was only 32%, its lowest level since we have comparable and reliable measurements.

In summary, neither the recovery of economic stability, nor the successive political changes, nor the commercial and productive linkages with the United States, have been able to get Mexico out of the path of mediocre growth it has been on at least since 1982. The following section reviews some possible explanations for this result.

Figure 5: Mexico's GDP per capita and GDP per worker relative to USA, 1950-2019
(as a percentage of USA values)



Source: Own elaboration with data from Penn World Tables 10.01. Feenstra et al. (2015)

5. What could explain Mexico's economic performance?

There have been numerous attempts to explain the lackluster performance of the Mexican economy in recent decades. The first wave of these works occurred at the beginning of the 21st century, that is, once the Mexican economy had managed to regain economic stability and had already carried out an important group of reforms. In those years, the key discussion in Mexico (and to some extent throughout Latin America) was whether the reforms had helped to recover the capacity for growth.

For some critics, the reforms had been unnecessary and did not appear to be working. In response to this vision, in 2003 two short articles were published that defended the reforms carried out in Mexico and, furthermore, suggested continuing to advance in what was then called "second generation reforms." These articles were published by Francisco Gil-Díaz and Guillermo Ortiz, Secretary of the Treasury and Governor of the Bank of Mexico, respectively. In both cases, the authors defended the reforms implemented and suggested moving forward in other dimensions. For example, Gil-Díaz (2003) suggested working on issues such as judicial reform and institutionalizing mechanisms to guarantee fiscal discipline, while Ortiz (2003) emphasized the process of institutional building in general and mentioned the issue of prudential supervision of the financial sector as an example.

In a similar vein, Tornell, Westermann and Martínez (2004) analyze Mexico's economic performance until 2003. They conclude that trade and financial openness cannot be blamed for Mexico's "less than stellar" performance, but that the problem lies in the difficulty of executing contracts and in other problems in the financial sector. They also conclude that the contraction of credit for the non-tradable goods sector generates bottlenecks for the tradable goods sector, which in turn affects exports and economic growth.

Subsequently, the discussion about Mexico's economic performance changed focus: instead of questioning whether previous reforms had worked or not, it began to discuss what other policies could be followed to try to return to a path of high and sustained growth. Levy and Walton (2009), for example, proposed promoting greater competition in the economy, reducing inequality, eradicating extreme poverty, reforming the labor, telecommunications and energy sectors, and reducing dependence on volatile financial flows. For their part, Guerrero, López Calva and Walton (2009) emphasized the problem of inequality, as an element that limits the country's growth capacity. They noted that a more homogeneous and inclusive distribution of benefits would help promote better allocation of resources and greater growth. Esquivel (2005) suggested analyzing the issue of financial credit for the private sector and proposed designing a countercyclical policy that would help reduce macroeconomic volatility.

Chiquiar and Ramos-Francia (2009) pointed out that Mexico's problem was the incentive structure that promotes the allocation of resources to unproductive activities. They proposed reforms that seek to eliminate inefficiencies in the banking system and the rigidity of the labor market. They also suggested promoting competition in the transportation, telecommunications and electricity sectors. Kehoe and Meza (2011) fundamentally agree with this specific reform agenda and suggested allowing private investment in oil extraction and reducing violence and insecurity.

Arias et al. (2010) identify many of the problems already mentioned: labor market rigidities, legal problems in executing contracts, lack of competition in various sectors and poor infrastructure. In addition to the above, they point out two other problems: the neglect of early childhood (which has negative effects on the acquisition of human capital) and the issue of informality which, in their opinion, has negative effects on investment and contributes to lower productivity. This last point is, in general, very similar to that emphasized by Levy (2008).

Esquivel and Hernández Trillo (2009) suggested that some economic reforms could help promote economic growth, but that these should follow an appropriate sequence. They suggest starting with a legal and judicial reform that improves the application of the rule of law and continuing with a reform of economic competition issues. Finally, they propose advancing a broad reform of the financial system that improves the granting of credit and facilitates access to financial services.

Hanson (2010) points out that there are at least three internal factors and one external factor that could explain the mediocre performance of the Mexican economy. Among the internal ones, the author identifies the lack of access to bank credit, inadequate regulation in sectors that provide key inputs for companies (energy, telecommunications and skilled labor), and the issue of informality and its impact on productivity. Regarding external factors, Hanson emphasizes the effect of competition with China in the global market, which could have negatively affected Mexico's growth possibilities starting in 2001, when China entered the World Trade Organization.

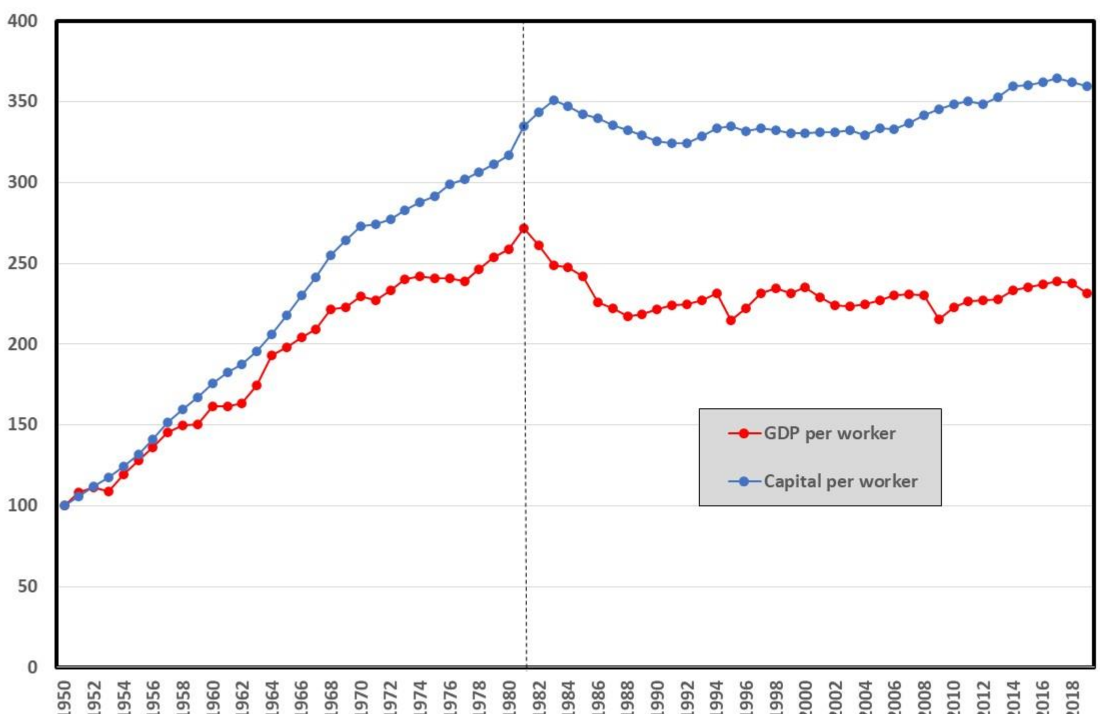
As can be seen, although there are recurring themes, there is a wide variety of arguments that have been used to try to explain the low growth of the Mexican economy. A problem with many of these explanations, however, is that most of them could not explain the results observed between 1950 and 1981. That is, many of the problems identified in the literature have been present for a long time in Mexico: informality, the weak rule of law, the lack of competition, etc. Partly for this reason, it is no coincidence that in recent years an alternative approach has emerged, of a more structural nature, and in my opinion more appropriate, that tries to explain in a different way what happened to the Mexican economy.

This break occurred with the very important works of Ros (2013, 2015). In these works, Jaime Ros criticized what he considered to be the “wrong theses about the economic stagnation of Mexico.” According to Ros, the fundamental explanation for the country's economic performance lies in the low accumulation of physical capital. This, in turn, would explain the low productivity and the presence of informality, that is, these characteristics of the Mexican economy should be understood as the consequence and not the cause of Mexico's low growth.

Graph 6 shows the behavior of GDP per capita and GDP per worker in Mexico from 1950 to 2019. The graph shows a very similar behavior over time for both variables and an almost simultaneous break in their trajectories. This would seem to support Ros's (2013) hypothesis, although it does not necessarily imply that other explanations are incompatible with his conclusion. In fact, some of the elements identified by other authors could explain the low rate of capital accumulation per worker and, therefore, the country's low growth. Among the elements that are compatible with this interpretation we can include the lack of access to credit and the lack of appropriate infrastructure, that is, those elements that are associated with low levels of investment, either public or private. The results of Hsieh and Klenow (2014), which associate the existence of financial frictions with low plant size and lower productivity in the Mexican industry, are also compatible with Ros (2013). Therefore, Ros' hypothesis seems to be so far the most convincing one to explain why Mexico is not yet a developed economy.

Figure 6: Mexico's GDP and Capital per worker, 1950-2019

(Indexes, 1950 = 100)



Source: Own elaboration with data from Penn World Tables 10.01. Feenstra et al. (2015)

While it is true that lack of investment is only a proximate and not a fundamental cause of growth, Ros's argument remains a very important contribution to our understanding of what has happened to the Mexican economy in the past decades. This allows us to rule out potential explanations that do not seem to affect capital accumulation or that have not changed significantly before and after the 1980s. In that sense, only a handful of explanations remain that are compatible with the growth pattern that we have described for the Mexican economy. In particular, the most important ones are those linked to the lack of access to credit, the lack of public investment, and the entry of China into the global arena, which could have had a significant impact on the prospects of the Mexican economy throughout the 21st century.

6. Final comments

Mexico is not yet a developed country because it has failed to consistently implement policies compatible with high and sustained growth. The only period when this occurred was during the so-called "stabilizing development" of the 1960s. Subsequently, in the 1970s, although the country grew rapidly, it did so in a way that undermined the fundamentals of the economy and generated enormous and profound macroeconomic imbalances. These imbalances, which manifested as inflation, devaluation, fiscal deficits, current account deficits, and high levels of public debt, required a long and prolonged period of adjustment in the 1980s. The 1980s therefore became a lost decade. In the early 1990s, the economy finally began to stabilize. However, a series of poor economic policy decisions produced new imbalances, this time in the form of enormous deficits in the current account balance. This led to a new and significant devaluation of the Mexican currency and a renewed threat of defaulting on foreign commitments. The result was a new financial crisis in the mid-1990s. Once again, the country had to make a significant adjustment in the economy, which resulted in a sharp increase in poverty rates.

Towards the end of the last century, the economy finally began to stabilize. By 2000, the country had managed to bring inflation back to single digits, secured a promising trade agreement with its northern neighbors, and had created a new institutional framework that seemed to lay the foundations for sustained growth. Moreover, the country had finally achieved a political transition and chose a different political option from the one that had governed the country for the previous seventy years. All of this, however, did not translate into higher growth.

The causes of low growth in the last two decades are different from those of the last years of the previous century. Now the economy was stable, countless reforms were carried out, and everything seemed in place for growth. The recent problem appears to be that none of this has managed to promote high investment in the country. Capital per worker is not very different today from what it was in the early 1980s. In the absence of significant improvements in total factor productivity, the country requires higher rates of capital accumulation. In this sense, policies should be oriented towards favoring investment. On the public sector side, far more resources should be allocated to investment in infrastructure and public goods, which could require a significant fiscal reform. On the private sector side, the business environment must be improved and access to financing must be increased. Without policies that address these issues, it will be very difficult for Mexico to escape the middle-income trap in which it has been stuck for more than 40 years.

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