Nora Lustig. MEXICO: The Remaking of an Economy. The Brookings Institution, 1992.

This book is an interpretation and an account of Mexico's economic experience from 1982 to 1991. This experience is especially important for two reasons: First, Mexico's inability to meet its debt obligations in August of 1982 ushered in the debt crisis that dominated the mid-1980's; Second, Mexico is held up as an example of the economic restructuring needed to deal with the aftermath of the debt crisis.

In the first chapter of the book a summary of the experience is presented as well as the author's interpretation of this experience. An important feature of the Mexican experience is the length of time that it took to control inflation and resume growth after the initial crisis in August of 1982. Inflation was not controlled until 1988 and sustained growth did not resume until 1989. The author's interpretation is that this delay was due to adverse external economic conditions. She specifically rejects the possibility that this can be explained by the delay in introducing structural reforms or a poor application of macroeconomic policy. Hence, the author faults the international community for its failure to ameliorate these external conditions and stresses the social costs incurred as a result.

One finds in the rest of the book five substantive chapters. In the first one Dr. Lustig provides an account of Mexico's economic experience prior to the crisis. In particular the evolution of macroeconomic policy and external conditions from 1970 to 1982 is the focus of the brief but adequate discussion in this chapter. In the second chapter, one finds the core of the book. It is an in depth account of the evolution of economic policy and external conditions from the start of the crisis until 1991. This chapter is not only full of detail but also of economic insight about the policy options facing Mexican decision makers and the consequences of various courses of action. It is a thorough, scholarly account of macroeconomic policy choices and outcomes during the period. For instance, the Mexican economy was hit by a substantial oil shock in 1986 (a decrease in oil prices of 50% when oil still represented over half of exports and over a quarter of government revenues). Mexican policy makers adjusted by devaluing the controlled exchange rate, which led to a surge in nonoil exports. In evaluating this response the author is careful in identifying the conditions that made it work in Mexico and noting why these conditions may not apply elsewhere.

Social costs of adjustment are the topic of the third chapter. After describing conditions prior to the crisis and problems of measurement, Lustig shows that wage income declined in real terms by 8% and nonwage income by 1.2% from 1983–1988. She also shows that the agricultural sector had a different experience during this period, sometimes expanding when the rest contracted. Indeed, in the early years of the crisis agriculture may have experienced

labor shortages. Social spending declined, food subsidies changed from general to targeted and indicators of health nutrition and education were somewhat mixed over the period. Therefore, it is not surprising that the middle income groups seemed to fare worse during the crisis, even worse than the poor in terms of the drop in the percentage of income to the lowest 40% relative to the next 50 % in the income distribution (p. 92). Mexican households avoided the worse consequences of the crisis through increased hours of work and participation in the informal labor market. The poor were hurt less on a relative basis because of their lower reliance on wage income. Nonetheless, their absolute living standard is not likely to have increased up to 1989.

Domestic reforms in the public sector are the subject of Chapter 4. They centered on three areas: fiscal policy, divestiture of public enterprises and deregulation. Several aspects of these reforms are highlighted by Lustig. In the first area the period saw two tax reforms (1987 and 1989) and a crusade against tax evasion after 1986 as well as a significant drop in public investment expenditures. The reforms combined somewhat lower rates in most categories with increased enforcement. In the divestiture area the period saw the reversal of a trend toward government enterprises that had accelerated in the 1970's. These went from numbering 391 in 1970 to over a 1000 in 1982 and 269 by 1991. Smaller and less important firms were privatized first for both economic and political reasons. The larger privatizations were not undertaken until after the Salinas government took power. Perhaps most important was the

announcement in May 1990 that the banks would be reprivatized. Finally the period after 1989 saw major deregulation attempts in the liberalization of the financial sector, the elimination of licensing schemes and other restrictions across a broad spectrum of industries, and the deregulation of prices in terms of both lifting price controls as well as lowering the differential between the controlled prices and the international ones.

In Chapter 5, Lustig discusses reforms in the foreign trade and investment regimes. Trade reform was started slowly in 1985 and consolidated in 1987. From 90% of domestic production protected by import licenses and a production weighted tariff equal to 23.5% in 1985 Mexico went to 20% and 11% in 1988, respectively. By and large the liberalization seems to have had a positive effect on performance but Lustig points an anomaly: two of the industries that expanded the most rapidly were not subjected to the liberalization! As part of this process a dismantling of the industrial programs that Mexico uses to protect industries such as autos computer and pharmaceutical began in 1985 and continued throughout the period. A similar opening up process took place in the area of direct foreign investment. Restrictions on sectors off limits to foreigners were reduced; limits on the proportion of participation by foreigners were lifted or reduced. Two important aspects of trade reform during this period, as Lustig points out, were Mexico's decisions to joint GATT in 1986 and to seek a free trade agreement with the U.S in 1990. The latter is viewed by Lustig as a mechanism to enhance confidence and the growth of foreign investment in Mexico.

What are the strengths of this book? First and foremost is the detailed scholarly discussion of macroeconomic policy making around certain critical events for the Mexican economy during this period. Second is the abundance of information and documented references to other work, which makes it a good source on the topic. Third, the book is succinct and readable, which makes it accessible to students. Finally the book is comprehensive in its coverage, consistent in its emphasis on the consequences of the adjustment for the poor, and rich in institutional detail.

What are the weaknesses of the book? The most glaring one is that the author's main interpretation of the period in Chapter 1 does not follow from her analysis. The delay in turning the economy around was not due necessarily to external economic conditions. When the Mexican government nationalized the banking sector in late 1982, it created a confidence crisis among private investors in Mexico, potential foreign investors elsewhere and the international community. Why would credibility and confidence be restored before this step is reversed? Why was it not reversed prior to 1990? It was politically difficult. Thus, political factors were instrumental in this slow turning around of the economy. Macroeconomic policy is of limited relevance when there is a crisis of confidence. Why should the international community have any greater faith than the private sector in a government that is bucking a trend toward greater reliance on the market and feels politically unable to reverse the biggest signal in that direction? As the author carefully

documents there were hardly any structural reforms by 1985.

Among the minor shortcomings of the book are a few omissions. First, there is no discussion of corruption in the whole book. Indeed the word does not even appear in the index. This issue is relevant to the generation of investor's confidence inside and outside the country and the Mexican government itself raised the issue during this period. Second, there is no analysis in Chapter 3 of a rather noticeable statistical oddity. The average share of nonwage income in total income during 1983-1988 is 79.6% in agriculture and 69.4% in all sectors. These figures are extremely high for a country at Mexico's level of development. For instance in Korea this share averaged 37% during the period 1960-1973, Christensen and Cummings (1981). Mexico's GDP per capita in ICP dollars was $5,980 in 1990 whereas Korea's was $7,910, according to the World Bank's World Development Report for 1992. In 1960 Korea was poorer than Mexico. Third, there is no framework to discuss the cost of the structural adjustment on the poor. This is limiting in two dimensions. One has no idea of how the poor would have fared in a counterfactual situation. Also the whole issue of adjustment is one of intertemporal trade offs and one has no idea of how the poor will have fared in an intertemporal setting. Both dimensions are difficult to handle.

Notwithstanding these weaknesses, this book provides a very valuable and thorough account of a particularly important period in Mexican economic

history. It is a useful addition to the library of macroeconomists as well as international and development economists. In the classroom it can serve as a useful supplement in a variety of undergraduate economic courses and area studies courses. It is a good addition to the literature.

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