



Photo by Eneas de Troya.

Mexico's president, Enrique Peña Nieto.

## PERSPECTIVE

## Mexico Under the “New” PRI

by Denise Dresser

**M**exico waking up. Mexico moving forward. A country that — according to the new narrative — has shown that it's ready to pact, negotiate, propose reforms, and approve them. A country that no longer wants to be hostage to archaic traditions and entrenched practices. A country ready to leave behind the nationalist position on sovereignty. Tossing out its heavy ideological baggage. Prepared to surmount 15 years of few reforms and little growth. The future is promising, the foreign press says. Mexico has crossed the threshold and approved reforms that had been politically unpalatable and historically rejected. Mexico has said goodbye to authoritarianism and need not fear its return. The ruling party, the PRI, has reinvented itself and so has the country, the optimists insist. And the “new” PRI has been willing and able to push through the reforms it promised on the fiscal, telecommunications, energy, judicial, and political fronts.

The problem with this argument is that it underestimates the complacency of the political class. The

weight of the vested interests that are aligning against the reforms. It underestimates the ties that bind President Enrique Peña Nieto and how they will tighten as the implementation of the reforms takes place. It doesn't give enough weight to the commitments that the president and his party have made to the veto centers, which are poised to sabotage, undermine, and dilute the reform process.

In order for “Peñastroika” to succeed, the president and the PRI would have to disarticulate the interests that carried him into Los Pinos, the presidential residence. The TV networks. The union gerontocracy. The business monopolies. The corporatist bases of the PRI. All of the accomplices of Mexico's system of crony capitalism that the PRI engendered and is still benefitting from. All of the veto centers that pay lip service to the reforms but are aligning themselves to make sure that the reforms create new cronies instead of dismantling the economic structure that makes crony capitalism possible.

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It’s true: Mexico today does have a credible narrative for the future. But in order to actually write it, the PRI would have to become what it has never been: a party capable of creating a new paradigm for economic growth, economic inclusiveness, and political representation. And at the helm of it, a president who sees the reforms through, beyond the celebration of their approval. Who is capable of keeping the reformist impulse alive, despite the pressures to quell it. Who goes beyond the photo shoot and the applause and the imagery that has accompanied the reforms and makes sure that their implementation and the approval of pending secondary legislation doesn’t amount to just window dressing. So let’s examine each reform: the underpinnings, the implications, what has happened, and what comes next.

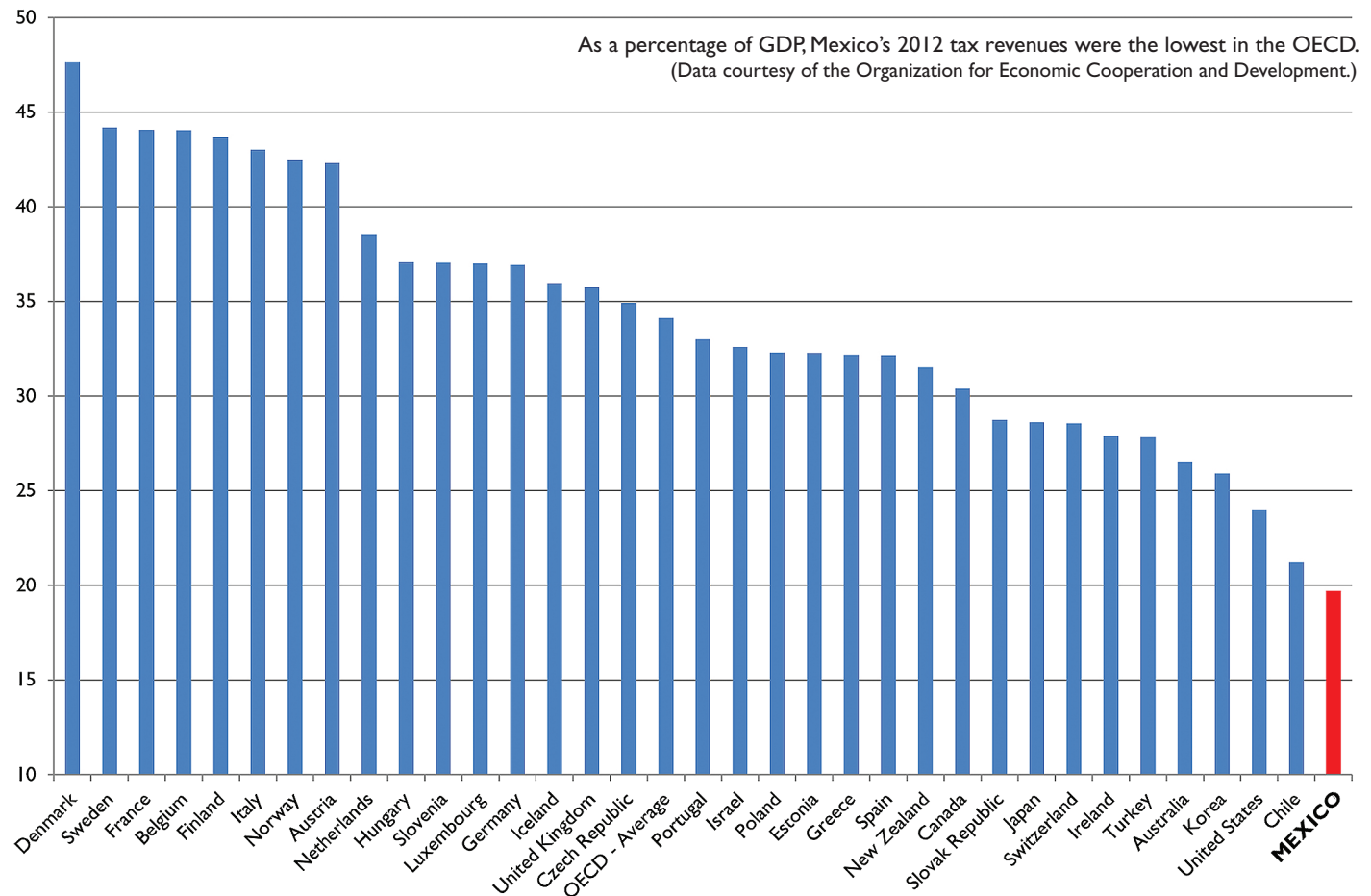
**Fiscal Reform**

A mini reform. A Band-Aid. A patch. Something that doesn’t resolve the substantive problem but rather seeks to temporarily relieve it. That is the reform that has been approved by the Peña Nieto government. That’s the way it should be interpreted. Not as a grand bargain but as a small intervention. Not as something that is going to revolutionize the relationship of the

Mexican taxpayer to the state but as something that will keep it intact. Not as the renegotiation of the prevailing fiscal pact but as the continuation of the one that already exists. With the same petrolization, with the same evasion, with the same base of captive taxpayers. Peña Nieto has not sought to change the preexisting fiscal pact, based on little taxation, a lot of spending, and the use of oil revenues to cover the gaps. He wants to give it CPR.

It is not a reform that contemplates the end of ample spaces for corruption, that entails plugging up all the holes, that attempts to depend less on oil revenue or to rationalize public spending. And that’s why it falls short. That’s why it constitutes just an effort to raise some taxes, not an effort to use them better. That’s why it reflects a state that wants to intervene more in the economy without having to spend better or with more transparency. Because what the reform does contemplate is spending. Spending. Keep on spending. It is going to generate permanent pressure on the budget by introducing universal pensions and unemployment insurance. It’s going to raise spending over revenues and widen the budget deficit.

There is no way of dealing with the budgetary allocations that are growing the most, like pension payments for public-sector employees. There is no way



of reducing the excessive resources that are channeled to the political parties. Instead, there is a rise in public spending per se. Net public spending under Peña Nieto will reach historic levels. And the problem is that we don't know whether the additional resources will line the pockets of the bureaucrats or go to the construction of highways and schools.

Because the reform doesn't seek to resolve the deep-rooted problem of Mexico's terrible fiscal pact. It doesn't resolve the dilemmas generated by taxes that are insufficiently collected, by spending that is inefficiently assigned, by public resources that are badly distributed. It doesn't attempt to change the historic dynamic of a state that has little legitimacy to demand more when it spends so badly. If that doesn't change, no tax collection effort will be enough. And Mexican citizens will continue to evade taxes. And business oligarchs will continue to evade payment. And the government, instead of rewriting the dysfunctional fiscal pact, will continue to place Band-Aids upon it.

### Telecommunications Reform

The last 20 years have been full of unfulfilled promises in the telecommunications sector. Twenty years in which the Mexican government has not been able to unleash the potential of a crucial sector, due to the monopolies and duopolies that strangle it. Twenty years of weak or captured regulatory authorities that don't seem able to promote the transition from analogue to digital TV, to open more than two fiber optic cables in the Federal Electricity Commission in order to build an information superhighway capable of competing against Carlos Slim. Twenty years in which the government allowed dominant



Photo by Kino.

An out-of-service telephone.

players to avoid competition instead of facing it.

And suddenly, the shock of the student movement "Yo Soy 132." The public finger pointed at Televisa and TV Azteca as manipulative and anti-democratic forces. And thus, the impulse that caused all the political parties to embrace the need to change the law. Take on the pending task. Confront the veto centers in the media and reach an agreement

to restructure the underpinnings of media power that has become abusive. Immune to competition. A key reason that explains Mexico's dysfunctional democracy.

The reforms presuppose that the government will reclaim public goods previously sold as concessions. That those who exploit public goods will be subjected to norms and will not be able to act of their own accord, as they had been doing. That the

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president will not be able to simply give away concessions as he did in the past. That newly created regulatory bodies will have the power to enforce their decisions. That they will have the capacity to impose substantial fines on those who do not fulfill the obligations of their concession. That the public interest will prevail over the interests of Emilio Azcárraga or Ricardo Salinas Pliego.

But that doesn't mean the war has been won. On the contrary, the television networks are poised to dilute, veto, block, and use any weapon in the arsenal to make sure that the reforms don't touch them. They have already achieved the elaboration of secondary legislation that goes against the spirit of the proposed reform, without any consequences. They are trying to make sure that “must carry, must offer” doesn't happen. And although the new regulatory entity — the Ifetel — has the capacity to fine, open up bids for spectrum, declare the existence of dominant players, and regulate interconnection fees, its role is currently limited by the nonexistence of new rules that Congress should have created but hasn't. Because congressmen are too busy slicing up the budget and opening up the oil sector. Because they haven't understood that the telecommunications battle is the right battle, at the right time, against the right enemy. And instead of waging it, they are wondering how to declare a truce before the battle even begins.

### **Energy Reform**

The government seems willing to compromise the content and implementation of other reforms in order to assure the passage and success of the one it really wanted all along. The one it hopes will be the catalyst for growth. The one that will cement the changing international narrative about Mexico: energy reform. A badly needed reform given the diagnosis recently published by the Mexican Competitiveness Institute in a study that lays out the cost of falling behind. The cost of maintaining the status quo for so many years. The cost of staying at the margins of global energy reform. Mexico has been stuck in the same place for more than a decade, according to the Competitiveness Index, because we haven't created the conditions for the economy to take off.

In Mexico, for decades, we have been wasting our potential. Wasting our time. Channeling more resources into the pockets of Carlos Romero Deschamps than to the vast majority of Mexicans. Channeling resources from Pemex to the government that it should have obtained through taxes. We needed an energy reform that allowed for strategic associations and the liberalization of energy markets. We needed an energy reform that liberated Pemex

from its ideological bindings, from the stranglehold of the union, from the fiscal exploitation by the government.

It was supposed to be about taking advantage of lessons offered by other countries that manage their oil sector better than we do. Countries like Saudi Arabia and Cuba, Brazil and Colombia, Norway and Canada that have reformed their energy sectors in a flexible and pragmatic way. To attract investment. To create robust regulatory frameworks. To allow the state operator — like Statoil in Norway — to effectively maximize oil revenues. To transform Pemex into a real business run with transparency and accountability. To promote private investment in refineries and the transportation and distribution of oil. So as to not keep on perpetuating the myth that oil belongs to the Mexican people, when in reality it has belonged to the few who siphon off its wealth for private gain.

So how has the reform addressed these issues? Incompletely and dangerously, by those who believe that private investment in Pemex is the only way to address problems of productivity, efficiency, corruption, and corporatism. And who, in an effort to break the statist stranglehold, run the risk of repeating the mistakes of the past and leaving the real beast alive: the structure of Mexico's crony capitalism and the true evils that it has engendered.

Too many politicians, analysts, and investors have celebrated energy reform because they are centering their gaze on an easy target. They recommend silver bullets against the oil workers union and close their eyes to the fact that this reform doesn't touch the union's privileges. They excoriate the rapacity of public monopolies without taking into account the weak regulation that explains the same rapacity in private monopolies. They see private investment as a panacea, without understanding that if the rules of its participation don't change, the alleged cure will be worse than the disease. The silver bullet that the reform put in the gun will not bring about the promised benefits but rather renewed opportunities for other cronies, in this case those close to Peña Nieto and his administration

What Mexico has to think through and didn't was how to modernize the energy sector without just passing on to private hands the wealth it produces. How to extract oil without simply transferring its gains to private investors. How to strengthen Pemex's financial structure without simply creating conditions for more concentration of wealth. How to promote investment in a key sector while distributing the gains for development. Mexico has not answered these questions well and thus runs the risk of repeating past mistakes.

The problem lies in what wasn't contemplated. In what wasn't proposed, in what wasn't part of the debate.

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The Centenario deepwater drilling platform in the Gulf of Mexico.  
(Photo by Dario Lopez-Mills/Associated Press.)

Something that the political and business class evades: the promotion of competition, the need for strong regulation, the protection of consumers, the imperative of the public interest regarding oil and its future. Measures that countries like the UK and New Zealand and the state of Texas implemented when they privatized their energy companies under the supervision of efficient and powerful regulatory enterprises capable of setting clear rules among new players. Measures necessary to transform the country’s economic horizon through the construction of energy markets that benefit Mexican citizens and consumers. And not just the private companies that pressured the government to open up the oil sector with the objective of extracting more rents from there, too. The beast of oligopolistic capitalism survives thanks to a way of governing Mexico in which vested interests have been able to guide public policy in a way that benefits their interests. And that is why energy reform will not be a sign of progress unless the regulatory conditions that accompany it improve.

### Violence

Up to this point, I’ve focused on the good (the reformist impetus) and the bad (the specifics of several reforms and their implications). I’d like to now address the ugly. What Reforma newspaper calls the “Ejecutómetro”: a monthly measurement of the number of executions that have taken place. It reveals that the same number of executions occurred in the first 100 days of Enrique Peña Nieto’s administration as took place in Felipe Calderón’s last 100 days. The crime statistics in Mexico are among the worst in the Western Hemisphere, and according to Latinobarómetro, more than 40 percent of Mexicans say that either they or a family member have been victims of violence. Insecurity, according to a study by JP Morgan, shaves off 1 percent of the country’s GDP annually. The New Mexican Miracle has yet to reach the highways of Michoacán or the streets of Acapulco. Because violence and insecurity persist even though the conversation about them has changed. Impunity continues even though no one in the government wants to talk about it.

And there is much to talk about, given the recent approval of the National Code for Penal Procedures. A Code we should applaud and also lament. Applaud for the fact that it introduces oral, adversarial trials in a country that needed them. Lament because it deals with what happens in the courts but does not regulate the police. Thus, it leads to people being apprehended and then tortured. To interrogation processes that are not standardized or supervised. To policemen who are badly trained. To processes for obtaining eyewitness testimony



Photo by Eneas de Troya.

A 2013 commemoration of those killed in Mexico’s ongoing violence. that do not follow international best practices. Mexico will have clear rules for judges but not for policemen.

And in places like Michoacán, the police are the problem. The courts are the problem. The absence of the rule of law is the problem. In the plazas and on the streets, in Apatzingán and Zitácuaro, in Morelia and Tierra Caliente. Signs of the emergence of a parallel state, signs of a microcosm of what happens elsewhere throughout the country. In places where the government doesn’t govern but rather La Familia or the Caballeros Templarios. Where instead of calling the police in search of protection, people prefer to turn to a cartel or a criminal group. Where self-defense groups have burgeoned in the absence of a state that can carry out its most foundational task: the legitimate monopoly of violence.

When citizens don’t believe in the police or in the courts, criminals or self-defense groups fill that role. When the state cannot assure security or employment or avenues for social mobility, cartels begin to do so. That is the challenge for Mexico: a war centered less on the



apprehension of drug kingpins and more on the seizure of their money. A war centered less on killing capos and more on creating functional courts. An effort that would require not just using the army as a deterrent and peacekeeper in places like Michoacán but also a financial strategy to confiscate accounts and a political crusade to combat corruption wherever it may lie: in the courts and in the municipal presidencies and in the governorships and in every corridor of power in Mexico.

### Conclusion

Throughout this journey through contemporary Mexico there is one constant, recurring theme. The persistence under the “new PRI” of the old “veto centers”: the capacity of certain groups to stall or dilute or block public policies geared towards the public interest. And in the face of these veto centers stands a weak society and an oftentimes captured state, incapable of dismantling the web of privileges that has strangled the country for so long.

Think of the rapacious public-sector unions: untouched. The businessmen entrenched in monopolized sectors: untouched. The corporatist *campesino* organizations taking advantage of subsidies like Procampo: untouched. The obese and unproductive bureaucracy comfortably installed in the public sector: untouched. Dominant actors that behave according to the corporatist logic of the past and thus sabotage the future. Accustomed to defending privileges instead of accumulating merits; accustomed to extracting rents instead of competing to diminish them. And this extractive, rent-seeking, exclusionary system — so well described by Darren Acemoglu and James Robinson in *Why Nations Fail* — is perpetuated by political parties that defend their own fiefdoms, their own cartloads of public money.

And the worst thing is that we have grown accustomed to this state of affairs. The accepted and tolerated dysfunction. We believe that the unbound privileges and the excessive rent-seeking and the absent or intermittent rule of law are an unchangeable part of our national identity. We don’t understand that the entrenchment of the clientelist, corporatist, rent-seeking logic is worse than in other countries and a defining reason of why it is so hard for Mexico to grow and to change and to prosper.

And this is an unacceptable situation. It leaves us out of the fold of rapidly growing, emerging economies. It condemns 50 million Mexicans to live in a rich country that is poor and unsafe for them. It makes us incapable of promoting investment, competition, equal opportunities, and social mobility for the many. We insist on being an exceptional and unique country in so many ways. Exceptional in the permanence of so many privileges in the hands of so few. Unique in the social tolerance of this fact. And therefore, the real solutions for Mexico do not lie only in the implementation of reforms from above; real hope lies in the creation of a context of greater demands from below. With the emergence of citizens who fight for rights and not just for government distribution of the spoils.

Those who, to paraphrase Eleanor Roosevelt, would rather light a candle than complain in the dark. Those who continue to believe in Mexico’s capacity to change despite evidence to the contrary. Our wide, melancholic, beautiful country. A place — described by Efraín Huerta in his poem “Declaración de amor” (Declaration of Love) — of fields sick with poppies and mountains spiked with thorns. I think about our future, a grain of wheat, the ample Mexican heart of stone and air. And that makes many people like me believe in patriotism, in social

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justice, in creative indignation, in participation, in service, in individual rights, in what goes beyond the cynicism of cold men with eyes of *tezontle* and granite. The daily decisions of extraordinary Mexicans I know who jump and move and act, paralyzing the mediocre noise of the streets, calling attention to what ails us. Voices of hope, of progress. Voices to fight against fear, corruption, impunity, abuse, the arbitrary use of power, the stream of fatigues.

Voices that help us understand that the real awakening of Mexico lies not just in legislative reforms; it entails the dismantling of what still remains of the old authoritarian system and the beginning of new codes of citizen conduct. A united front against the return of some of the worst vices of the past under the new PRI. A citizen coalition so that our eyes don't remain wide shut. The task is Herculean, and it involves us all; every person reading this text who cares about Mexico. As for me, I am ready to work with more determination than ever in the only way I know: with words. And affiliated to the only party I belong to. Ours.

Perhaps today I am being a bit of a romantic, but I think of Mexico, and I think of more than the good, the bad, and the ugly. I think about my daughter Julia's wild, curly Mexican hair; the nostalgia for Carlos Fuentes and Carlos Monsiváis and Germán Dehesa who left such a good legacy behind them; the growing urgency that I

and many feel for justice and dignity for all. I think of the sun setting over the sea in San Pancho, a miniscule town north of Punta Mita; the sound of the organ grinder walking down the streets of the Condesa; the majesty and the mystery of the intricate ruins in Mitla; every meal I've ever had at Dulce Patria restaurant; or simply riding a bike down Paseo de la Reforma amidst the boisterous crowds on a Sunday morning. I think about the risk of losing our home — our *patria* — like those who have suffered that fate due to the omnipresent violence in Michoacán, and I think about the opportunity of recovering it. Of achieving what Rosario Castellanos wanted: “that justice be felt among us.” It is exciting to be Mexican in these times, even if one does have to coexist with the return of the PRI. I am grateful for that grace. I don't believe we are unchangeable; I don't believe we are unmovable; I don't believe we are inferior to others or that we deserve any less. We are from the most transparent region of the air. Fortunately, we are from Mexico.

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An organ grinder in Mexico City.



Photo by Israel Gonzalez.