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Mexico: the Great Depression and the Coronacrisis, 1929 and 2020

México: a Grande Depressão e a Coronacrise, 1929 e 2020

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RESUMO: Ao contrastar a Grande Depressão e a Coronacrise, demonstramos que a economia narrativa (Shiller, 2017) é fundamental na análise das flutuações econômicas. Notamos a importância da narrativa populista para entender os resultados econômicos e de saúde da Coronacrise no México e destacamos o papel da predominância de diferentes paradigmas econômicos na tomada de decisões de política econômica. Sugerimos que, assim como em 1929, ao seguir políticas ortodoxas de balanço fiscal primário à custa de contrair investimentos governamentais, a economia mexicana passará por um longo e doloroso processo de recuperação em comparação com seus pares globais.
PALAVRAS-CHAVE: Economia narrativa; Covid-19; Grande Depressão; populismo econômico; história do pensamento econômico.

ABSTRACT: By contrasting the Great Depression and the Coronacrisis, we demonstrate that narrative economics (Shiller, 2017) is key in the analysis of economic fluctuations. We note the importance of the populist narrative to understand the economic and health outcomes of the Coronacrisis in Mexico and highlight the role of the predominance of different economic paradigms in economic policy decision-making. We suggest that, just as in 1929, by following orthodox primary fiscal balance sheet policies at the cost of contracting government investment, the Mexican economy will undergo a long and painful recovery process compared to its global peers.
KEYWORDS: Narrative economics; Coronacrisis; Great Depression; economic populism; history of economic thought.
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“Every crisis is half a failure and half an opportunity.”
Winston Churchill

“… but only for those who learn from it.”
Eduardo Loría

“History does not repeat itself, but it rhymes.”
Mark Twain

1. INTRODUCTION

To understand future scenarios that will arise based on the economic recovery from the current crisis (2020 on) and on the government’s response, first, we must define what we refer to when we use the word crisis. The economists have borrowed it from the medical sphere and have incorporated it in the vocabulary of economics in its catastrophic sense.

Férez (1986) claims that Hippocrates referred to a crisis when a doctor had sufficient information to evaluate the patient’s symptoms and the signs of the disease to determine if the patient would survive. It was the moment in which “the nature separated the detrimental from the favorable”, reason why the use of the word did not have to do with any fatal outcome but rather with the decisive moment in which uncertainty disappeared.

Conversely, in economics, the concept of crisis refers precisely to the moment when uncertainty emerges, when one does not know what to do or what will happen, and when policymakers frequently resort to old knowledge.

We consider that the ongoing crisis, characterized by weak recovery,[1] high inflation and contractive monetary policy could be perceived as pessimistic by economists (perhaps, in its catastrophic sense), but it could also be perceived in the sense used by Hippocrates, in which we can address a defining moment.

The historical background that bears most resemblance to the magnitude of the Coronacrisis, which also challenged the economic theory and policy, is the Great Depression (GD) [1929-1932]. To overcome it, a full economic paradigm shift occurred for and, since then, the need for an interventionist policy was acknowledged, which years later materialized in the Keynesian policy.

Although the GD and the Coronacrisis had different causes, most governments of the world addressed them with expansionary fiscal and monetary policies. In the first case, they began in 1932 due to the failure of the orthodox policies that had been applied since 1929. The set of revolutionary policies after 1932 was reflected in the New Deal (ND) [1933-1938] and they were used to change the direction of public policy management and its narrative, which allowed the United States (U.S.), the world, and Mexico to overcome that slump.

[1] That particularly in Mexico is explained by the enormous ravages of the Coronacrisis.

While during the first crisis the policies were general and for reconstruction, during the second they were preventive and had a strong focus on economic sectors and population groups to minimize possible destructive effects caused by the drop in supply and demand.

The main problem associated with GD was that a large part of the economic system was destroyed, so the mission of economic policy was to rebuild from the failure of the classical paradigm. In the case of the U.S., fiscal policy aimed at subsidizing agricultural goods to reduce their production and, thus, increase their prices. Temporary jobs for youth were created and financed by the government in the construction of infrastructure. Public dining rooms were installed and unions were allowed to form. Out of fear of bank runs, the government guaranteed all money deposited in commercial banks (Khan Academy, 2021; 2020).

Monetary policy in that period focused on 3 goals: a) increase money supply through the Federal Reserve's balance sheet, b) the Thomas Amendment allowed a return to the bimetallic coin, and c) tightened supervision and regulation of the stock market and commercial banking (Selgin, 2020).

During the Coronacrisis, in the U.S. and several countries, fiscal policy focused on 4 axes: a) increased spending on health, both for research and for response and precaution (tests and vaccines), b) subsidizing companies by reducing payroll taxes and giving them transfers to avoid bankruptcies, c) to support the population, unemployment insurance was expanded in quantity and duration, and d) the government made direct transfers to citizens (IMF, 2022a).

Finally, monetary policy facilitated financing and credit granting and the FED encouraged banks to reduce their leverage to 8% and lowered the interest rate by 150 basis points to 0-0.25 (IMF, 2022a).

Shiller (2017, 2019) outlines the great importance of the narrative as it is constructed by a government through its discourse and actions. Following this thesis, just like the highly contagious character of epidemics,[2] narrative economics (NE) is swiftly reproduced impacting the behavior of individuals, either acting in favor of the policy and the recovery from macroeconomic depressions, as was the case of the GD, or acting otherwise, just like the pandemic in Mexico.

Just as in the U.S., in response to the GD, the Mexican government implemented orthodox procyclical fiscal policies that deepened the depression, and it was not until 1932 when the Secretary of Finance resigned that a true shift took place in the politics and in the narrative, which restored confidence to both the population and investors, and the recovery began.

Nowadays, the response of the Mexican government to the Coronacrisis, con-

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[2] Shiller considers that narratives behave in the same way as epidemics and, therefore, the epidemiological model SIR can be used, in which the rate of contagions grows exponentially until the rate of the recovered population surpasses the rate of the population susceptible to contagion (Kermack and McKendrick, 1927).

trary to the economic policies conducted by most governments in the world, has consisted in the return to the same orthodox policy (primary fiscal balance at all costs), just as it happened during the GD. While other countries in the region that are at a similar stage of development, channeled, on average, 9.8% of GDP to emergency fiscal support,[3] Mexico barely spent 1% on it (IMF, 2021), which helps to explain high fatality and mortality rates due to COVID-19 and the sharp drop in economic growth in 2020, along with the challenges in economic recovery over the coming years.

In addition, the odd combination of orthodox fiscal policies,[4] the populist narrative and the actions taken by the government (2018-2024),[5] have seriously affected the growth trajectory since 2018 (even before the new government took office) and have notably weakened the economic recovery since 2021. The distinctive populist feature has been the allocation of ample resources to clientelist programs, that, far from building up support networks for businesses and families, is related to winning elections.

Mexico is a very particular and representative case within a group of populist countries that have responded to the Coronacrisis by minimizing the severity of the problem and by prioritizing short-term electoral goals.[6] Lasco (2020) refers to it as medical populism, where the communication and the response to the Coronacrisis (in Brazil with Bolsonaro, in the U.S. with Trump, and in the Philippines with Duterte) have created the narrative that simplifies the pandemic, where easy and quick solutions are encouraged and a divisive discourse is built by confronting "the good people" against "the others" – their critics.

While in Mexico we observe a sui generis combination of the orthodox fiscal paradigm and the populist narrative – which would be contrary to the classic populisms studied and described by Dornbusch and Edwards (1991) –, there are other countries that from early on recognized the serious nature of the pandemic and applied sanitary and economic (fiscal and monetary) countercyclical policies to mitigate the impacts of the crisis, thus, facilitating the economic rebound.

By contrasting the similarities in the economic policy response implemented in Mexico during the GD and the Coronacrisis, this paper shows the importance of the populist narrative during the current pandemic in Mexico. We suggest that, just like in 1929, by following orthodox policies at the expense of contracting public

[3] Peru and Bolivia channeled 16%, Brazil 15%, Chile 11%, Argentina 6%, and Colombia 5% (IMF, 2021).

[4] Systematically pursuing fiscal balance, along with increasing current expenditure (basically social assistance expending) at the expense of reducing public investment.

[5] Characterized by the aggressive discourse and actions towards private investment, both domestic and foreign.

[6] Coibion et al. (2020) find evidence that lockdowns lower the presidential approval, which could explain the behavior of the President, who systematically spread the narrative that the pandemic had been curbed and the economic crisis would be short-lived.

investment and raising government income, the Mexican economy will be forced to go through a long and painful recovery process as compared to its global counterparts, and that this weak recovery will depend merely on the stimulus of the U.S. economy (via manufacturing exports and remittances), given that no internal reactivation mechanisms are perceived.

The work is focused on Mexico, although some conclusions can be extended to other countries with populist regimes. In addition to this introduction, the article presents basic concepts about NE that are crucial to understand the health and economic results. In section 3 we outline the importance of the narrative with which the United States and Mexico emerged from the GD. In section 4 we analyze the government populist narrative during the Coronacrisis. In section 5 we conclude.

2. NARRATIVE ECONOMICS. SOME CONCEPTS

According to Shiller (2017, 2019), NE is a powerful framework that allows to understand the behavior of economic agents. The discourse and the actions ruled by a government play a key role in shaping the behavior of the population, which can also explain the outcomes in different economic and social features. He points that the success of the ND and the key factor that marked the recovery was the drastic shift from the crisis narrative to the recovery narrative.

Akerlof and Snower (2016) claim that the narratives are determining in the agents' decision-making, given that they establish simple mental relations that allow to find easy and quick explanations to complex past, present, and future events, since they work as filters to evaluate and select from an infinite amount of available information, and so are quite useful to draw attention to specific issues and to reduce the anxiety caused by uncertainty, thus, psychologically facilitating the decision-making process.

For Bénabou et al. (2018), the narratives, defined as stories that people tell themselves and others to make sense of the human experience, are useful for the agents to organize, explain, justify, and even forecast the course of events.

Freitas (2021) highlights the relevance of the narrative in the decision-making process suggesting that even the severity of a recession can be related to the degree of vividness and the extent of the narratives around it.

Behavioral economics and NE are robust interlinked theoretical approaches that have recently earned several Nobel Prizes[7] and that allow us to explain the relationship between public policies defined by (populist) governments and the reaction of the population.

In the context of the Coronacrisis – but it can also be extended to understand any kind of social, economic or political event in time, such as the GD – by using

[7] Such as Shiller, Kahneman, Thaler, Akerlof, Tirole and Benarjee, among others.

this theoretical approach, we are able to establish that people may have acted irrationally as a result of misleading official policies (narratives, policies and actions).

Kahneman (2003) and Benartzi and Thaler (2013) claim that desires, values, fears, and beliefs affect human behavior and explain the apparent irrationality in decisions. Banerjee (1992) and Bikhchandani et al. (1992) argue that individuals tend to follow herd behavior when they value the leader's narrative.

Regarding the Coronacrisis, Daverio-Occini et al. (2020) prove that political leader's behavior and decisions are of major importance, given that they directly affect the behavior (related to health and economics) and decisions of individuals. Shiller (2017, 2019), referring to the GD, suggests that NE was key in solving the crisis, and states that President Roosevelt succeeded in overcoming the crisis in 1932 by changing the narrative, congruent with public policy actions.

3. THE GREAT DEPRESSION OF 1929

UNITED STATES

Before the fatal 1929, the U.S. economy was fully growing, after the strong contraction of 1920-1921. In line with Friedman and Schwartz (1963: 232), "although it was relatively short, it had been the most severe crisis on record", which was related to its profound deflationary consequences, given that in a matter of barely two months prices plummeted 56%, but, in the end, the GDP contraction was only (-)2.3% (Johnston and Williamson, 2020) and perhaps it is what explains the fact that finally, the prices fell (-)10.68% (Officer and Williamson, 2020).

Almost immediately, the U.S. economy began a rapid recovery phase known as "the crazy years", during which extravagance and overspending prevailed, as depicted by contemporary novelists, such as Fitzgerald in *The Great Gatsby*.

It seemed that this recovery phase left behind the severe damage caused by deaths during the Influenza Pandemic (1918-1920) and by WWI.

Following Barro et al. (2020), the effects of this pandemic in almost 50 countries were reflected in average contractions of between 6% and 10% in per capita GDP, and the effects of WWI were seen in GDP contractions of up to 8.7% between 1918 and 1920.

Although the origin of the GD is still a matter of debate, in line with Friedman and Schwartz (1963), its main (amplificatory) cause was the procyclical monetary policy conducted by the Federal Reserve after the onset of the financial and banking crisis.

President Hoover failed in solving the crisis, since the economic policy systematically pursued to maintain public finances in balance at all costs and to raise the interest rate. This thought falls within the classic paradigm, which prevailed and claimed that this pulling away from the balance could only be caused by transitory unrest, that the quantity of money determined the evolution of prices, that economic activity was only explained by real factors (supply side) of the economy, and that it always and inexorably tended to full employment.

Accordingly, in 1930 the U.S. Congress approved the Smoot-Hawley Tariff Act, which raised U.S. tariffs on over 20,000 imported goods, decreasing the international trade and severely affecting the stability of the international monetary system (Eichengreen, 1986).

The pro-cyclical economic policy implemented by Hoover was incapable of pulling the U.S. economy out of the deflationary spiral and so, he lost categorically the 1932 presidential election, giving rise to the Keynesian outbreak, which was first materialized in President Roosevelt's ND during 1933-1938.

Roosevelt quickly managed to shore up the U.S. economy thanks to a strong change in the narrative and the economic policy that strengthened the confidence of the population. According to Fishback et al. (2003), the ND spread throughout the U.S. along three main axes ("Three Rs"): 1) relief for the unemployed and the poor; 2) recovery of the economy; and 3) reform of the financial system seeking to recover the dynamism of the banking, labor, social and agricultural sectors, which were the most affected by the crisis.

The ND included two phases: the first one (1933-1934) was known as the "program of the first hundred days", the main goal of which was to stabilize the economy and to apply urgent short-term reforms. The most important one was the Emerging Banking Act, in which a four-day National Bank Holiday was decreed, during which all bank transactions were suspended, and insolvent banks were closed (when the holiday period concluded, 75% of these banks reopened), and during which the government became the guarantor of deposits to help recover savers' confidence and to achieve the rebankization of the system (Silber, 2009).

The second phase (1935-1946) consisted in implementing important long-term structural reforms that laid the foundation for the subsequent institutionalization of the welfare state.[8]

Following Craig (2000), Roosevelt was aware of the importance of clear and direct communication with the electorate and even more so with the masses. Using the so-called fireside chats between 1933 and 1944, a series of messages were reproduced on radio stations (National Archives, 2020) and came to enjoy lot more popularity than the best radio programs of the time.

Eggertsson (2008) suggests that the recovery was triggered by the shift in expectations and in the behavior of the public, which derived from the actions and the narrative of President Roosevelt, who managed to break the prevailing eco-

[8] Roosevelt had a Democrat majority in Congress during the first 100 days of his administration, which allowed him to introduce the reforms in favor of a more extensive public spending with no political resistance and, when he lost ground to the Liberals, he focused on implementing long-term reforms (Rosen, 2014).

nomic dogmas, encouraging people to act in favor of the policy, while the goals of the monetary and fiscal policies became believable.[9]

Among other new (non-conventional) measures were the suspension of the gold standard and the increase in public spending and deficit (Figure 1), all of which took precedence over the predominant orthodoxy.

Figure 1: U.S.: Fiscal balance as % of GDP, 1929-1940

Source: Own elaboration based on FRED (2020).

The drastic shift in the crisis narrative, accompanied by the change in the policy through the early Keynesianism of Roosevelt,[10] shaped the basis of the crisis resolution.

MEXICO

The 1929 stock market crisis in the U.S. found a weak economy in Mexico, due to its high dependence on the international business cycle, the deep impacts caused by the civil war (1910-1921) and various U.S. economic crises during the 1920s, which affected the Mexican GDP since it was exports and tax revenues dependent,[11] Figure 2.

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[9] In accordance with Romer (1991), the recovery was accounted for by the role of aggregate demand stimulus, via the monetary expansion and the reduction in the interest rate that boosted investment for 1933-1942.

[10] Regarding the relation between Keynes and Roosevelt, Galbraith (2014, p. 302) points that “prior to publishing *The General Theory*, Keynes (1936) directly presented his ideas to President Roosevelt in a famous letter to *The New York Times* on December 31, 1933: “I especially emphasize the increase in the national purchasing power as a result of government spending financed by loans”.

[11] The Mexican government income depended up to 70% on export taxes, basically primary products (Cárdenas, 1988, 1994).

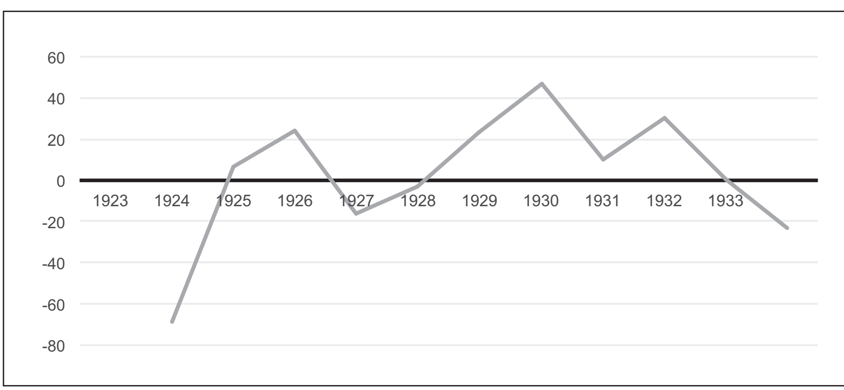
Figure 2: Mexico: Percentage change in imports and exports, 1923-1936

Source: Own elaboration based on UC3M (2022). Current US dollars.

The GD affected the Mexican economy through the external sector via three channels: a) the decrease in Mexican exports, b) the reduction in international reserves drastically lowered the amount of money in circulation, which raised interest rates, with respective contractionary effects on aggregate demand and, consequently, c) huge contraction in government income, Cárdenas (2015).

Responding to classical economic principles worldwide, the Secretary of Finance implemented a procyclical fiscal policy which, despite succeeding in generating fiscal surpluses between 1928 and 1931, accentuated the impact of the depressive tendencies that were already underway in the Mexican economy (Gómez-Galvarriato, 2002), Figure 3.

Figure 3: Mexico: Public Deficit, 1923-1933

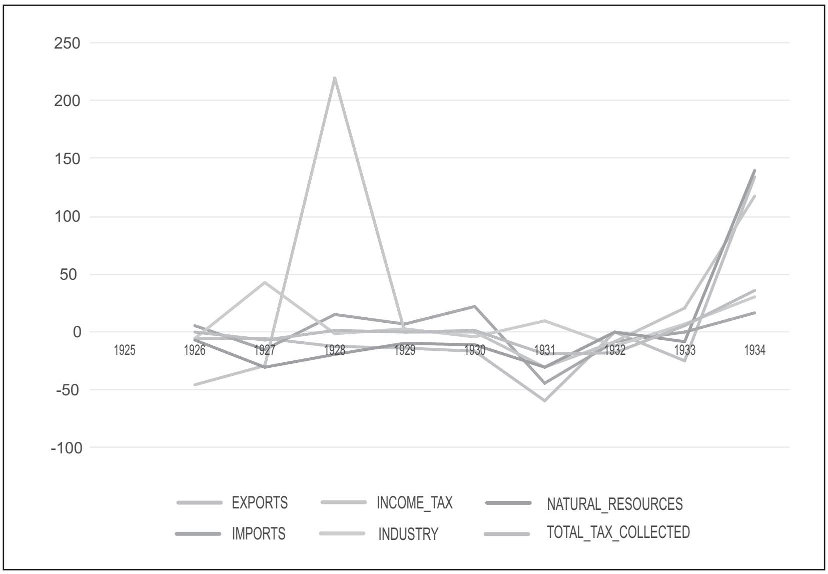


Source: Own elaboration based on Gómez-Galvarriato (2002).
Thousands of current Mexican pesos.

In 1929, the income tax was increased by 6% on capital gains and by 5% on wages. In 1930, the General Imports Tariff was applied, and in 1931 – to prevent the growth of the deficit – an extraordinary 1% tariff was introduced on all economic activities (Guerrero, 2005). In line with Turrent (2015), this fiscal orthodoxy was based on the gold standard and on the belief that the exchange rate should remain fixed and that, along with Say's Law, there were natural forces that would naturally lead to full employment.

Figure 4 shows that in 1930, at the height of the GD, tax revenue increased, and it was not until 1934 when the shift in economic policy and the evident boost stemming from the international recovery enabled fiscal revenue to begin growing.

Figure 4: Mexico: Percentage growth of tax collection, 1926-1934



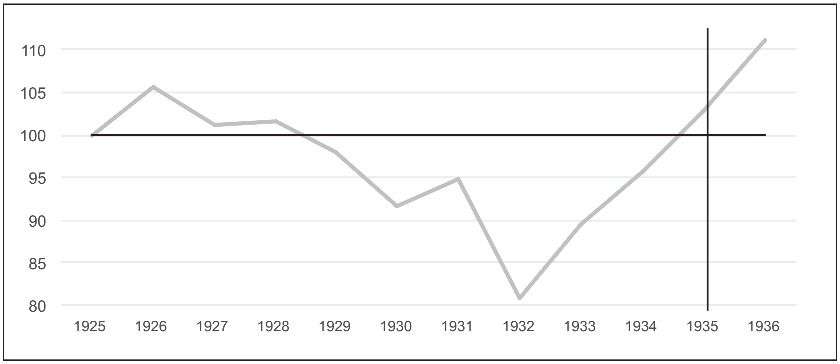
Source: Own elaboration based on Guerrero (2012). Shaded area refers to the GD.

In 1931, following the fiscal orthodoxy and despite the considerable capital outflow and a strong drop in exports, the government pushed for a monetary reform – among other things – to maintain the exchange rate fixed which, according to Turrent (2006) "generated a startling and virulent mistrust regarding the integrity of bank deposits and the currency value". In sum, said measures with deflationary consequences[12] made the Secretary of Finance a highly unpopular person (Marichal and González, 2012) and, after he left the cabinet, it also caused a political crisis, in which the Secretary of Industry and Labor and the Secretary of Foreign Affairs both resigned.

Consequently, after the economic and political crisis, it took 10 years to regain the GDP level registered back in 1925, Figure 5.

[12] Between 1927 and 1929, the general price level contracted by (-)9.1% (Anaya, 2015) and, between 1929 and 1932, Mexico's GDP decreased by (-)20%, with the final balance being a 22% decrease in GDP per capita (Tello, 2007).

Figure 5: Mexico: Real GDP 1925-1936, 1925 = 100



Source: Own elaboration based on INEGI (2022).

It is noteworthy that progress in economic science so far has not contemplated budgetary deficits as a countercyclical tool. Also, Mexico could not incur deficits, as, in addition to the fact that the population did not accept banknotes issued by Banco de México (BdM),[13] there were simply no creditors willing to lend to a government that has suspended its debt payment. In addition to this, there was an incipient development of financial markets in the country, and so debt issuance was not a viable option (Cárdenas, 2015).

A change of direction in the economic policy was necessary, given the intensification of the crisis due to the failure of the policy. Because of the pressure of public opinion, in 1932 the Secretary of Finance was replaced, and the new Secretary broke the economic paradigm of the moment and, following the example of the U.S., implemented expansionary (countercyclical) fiscal and monetary policies, as well as the definitive withdrawal from the gold standard.

Monetary policy became expansionary with an increase in the money supply of 31% and 15% for 1932 and 1933, and a fall in the interest rate from 12% to 8%, respectively (Cárdenas, 1988). Consequently, fiscal policy also completely abandoned orthodoxy. The government began to implement budget deficits to stimulate investment and social spending, and the exchange rate depreciated 35% by the end of 1933 (Moreno-Brid and Ros, 2010).[14]

Even before Keynesian economics, "the new Secretary of Finance intuitively understood that there was no mechanism that would lead the economy to full employment naturally and spontaneously" (Turrent, 2015). The radical change in the policy and the narrative, along with the world recovery, enabled the economy to emerge from the contraction it was experiencing.

[13] Just founded in 1925.

[14] The depreciation strongly affected the country that depended mainly on oil and silver exports. Additionally, the fiscal support represented 2% of GDP, which contrasts with the fiscal support in 2020 that was below 1% of GDP (IMF, 2021).

Although in Mexico the change in the narrative was not through speeches as in the U.S., the change in the Secretary's viewpoint was key in guiding the expectations and behavior of the people. In this way, and together with the great rebound of the U.S. economy, the Mexican economy recovered rapidly.

Just like in the U.S., changes and economic reforms modernized the society and its institutions. First, the shortage of the means of payment and the applied policies made BdM-issued banknotes widely accepted, and, starting from 1935, said institution had the conditions to exercise the monopoly of banknote issuance (Brothers and Solís, 1967). Secondly, considering the impacts on the balance of payments and the exchange rate, the Foreign Exchange Commission was founded and is still operating these days.[15] Thirdly, the sharp fall of industrial GDP and the higher cost of imports gave way to an incipient process of imports substitution, which, years later, would become the successful development model and the growth engine of the country for several decades.[16]

Finally, Tello (2007) claims that the GD made it clear that the State had to intervene to stimulate economic activity, give it direction and lower macroeconomic fluctuations. As a result, the First Sexennial Plan of 1934-1940 was proposed, which, henceforth, would be known as the National Development Plan, and which has been the roadmap that would guide the public policy of the incoming federal government. For Cárdenas (2015, p. 404) "the GD turned out to be the watershed" as it provided the country with economic policy instruments that would be very useful for decades to come.

4. MEXICO 2020: THE CORONACRISIS

The management of the pandemic in Mexico has been characterized by a sui generis combination of fiscal orthodoxy and political populism wherein the government narrative of minimizing the severity of the pandemic has resulted in very high fatality and mortality rates and a deep GDP fall in 2020, amounting to (-)8.2%, which in turn would lead to a slow recovery in the years to come.

Recent empirical findings and economic theory show (Cerra and Sexena, 2017, among others) that crises, regardless of their origin (demand or supply side), have permanent effects on the growth path, with very relevant long-term effects that we are yet to see.

Following Daverio-Occhini et al. (2020), in the context of the current pandemic, the actions of political leaders gain great importance, given that they directly affect healthcare and economic behaviors and decisions of individuals. In the case of

[15] It operates by auctioning dollars and its main goal is to lower exchange rate volatility.

[16] Cárdenas (1988, p. 223) affirms that "the GD contributed to the productive and institutional transformation, and the modernization of the country, by facilitating their maturity and by creating the economic conditions that promoted the domestic industrialization".

Mexico, they have derived in a high number of deaths and contagions, since the Mexican president and his spokespersons have systematically disregarded the World Health Organization (WHO) recommendations and kept on campaigning to promote the government and the voting in the upcoming elections.

Table 1 allows us to see the multiple facets of the government's populism and erratic narrative, which have considerably contributed to produce said outcomes.

Table 1: Mexico: Government narrative towards the Coronacrisis, 2020

Phrases	Date
"We have to hug each other, there is no big deal"	3 March
"The president's strength is in his moral; Covid is not a contagious force"	16 March
"The protective shield is honesty, that is what protects us. Stop, enemy! The heart of Jesus is with me!"	18 March
"Do not stop going out, keep taking the family out to eat to restaurants, to inns"	23 March
"We are going to come out stronger; this situation fits like a glove to strengthen the purpose of the transformation of Mexico "	2 April
"The pandemic has been tamed rather than triggered […] here the growth of the pandemic has been horizontal"	26 April
"There is a light at the end of the tunnel"	25 November
"The mask is not essential, there are other measures, and I think it is better to take a healthy distance and take care of ourselves"	2 December

Source: Own elaboration based on Presidencia de la República (2020). Except for the second phrase, which is by Hugo López-Gatell, Undersecretary for Prevention and Health Promotion and *czar* of the pandemic in the country, the rest are from Mexico's President Andrés Manuel López Obrador.

Contrary to other countries, the Mexican government did not protect private companies (of all sizes), so people had no choice between taking cover or going out.

The national policies did not reflect the reality or the danger of the disease. Despite the time between the outbreak in China and the notification of the first case registered in Mexico on February 28, 2020, there was no clear prevention strategy, and the President minimized the fact.

The sanitary measures began to be applied on March 23 with the start of the Health Distance Program (HDP), that consisted in basic prevention measures (promoting hand washing and the use of face masks), temporary suspension of non-essential activities and the rescheduling of massive events. However, and, reflecting the inconsistency, that same day the President continued with contradictory messages, as shown in Table 1.

In May, the HDP ended, and the Epidemiological Traffic Light was established, which is a monitoring system that regulates the use of public space according to the contagion risk. Due to the high number of infections and hospitalizations, all states started in red light (high risk).

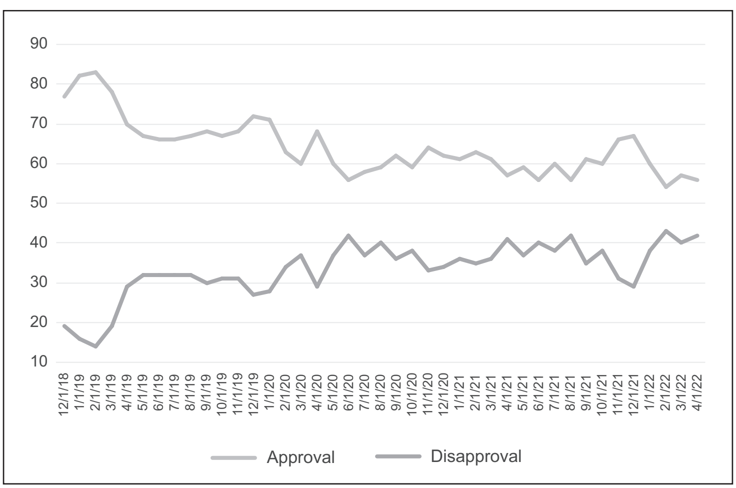
At the same time, the two official sources of information already mentioned often contradicted each other. The first was the daily morning press conference of the President (*mañanera*), during which he never wore a mask. The other official source of information was the daily evening conference of the Undersecretary of Health, which dealt with issues of the pandemic for informational purposes, and which commonly contradicted the recommendations of the President and the WHO.

Aguilar-Gomez et al. (2021) find that, while the Undersecretary insisted on it, the President never used the phrase "stay home". These authors show that the mobility of people depended on the narrative of the President, and not on that of the Ministry of Health. In general, the poorer, most needed and least educated population went out based on the information and the example of the leader, and because they badly needed to look for any kind of income.

Aragón and Bautista (2021) explain that, despite the contagions and the confusion caused by the narrative and the actions of the government, the population in general (especially those who received support from clientelist programs), maintained strong approval of the President, Figure 6.

However, it is clear that as of 2020Q2, as health damage and worsening economic conditions were felt, the approval significantly reduced, and the disapproval began to grow.

Figure 6: Mexico: Presidential approval, 2018M12-2022M02

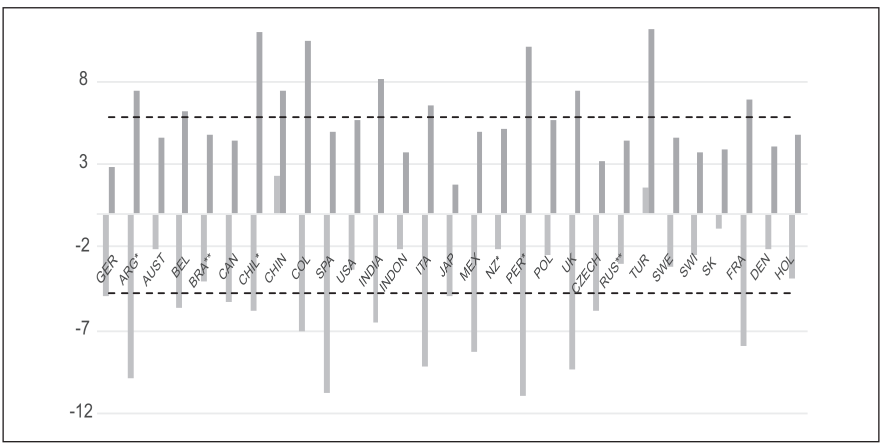


Source: Own elaboration based on Oraculus (2022).

Due to the above mentioned, Mexico, along with Peru,[17] occupied the first place in the case-fatality rate due to COVID-19 with 9.5 deaths per every 100 contagions and the fifth place in the number of deaths per 100,000 inhabitants (mortality rate) [Dong et al., 2021].[18] Additionally, it was the country with the highest number of deaths among healthcare workers (Agren, 2020) and Mexico City was the city with the third highest number of excess deaths per 100,000 inhabitants (The Economist, 2021).

As can be seen in Figure 7, contrary to the trend observed in the rest of the world, Mexico implemented a rigid fiscal orthodoxy, just as it occurred during the GD, whereby the fiscal relief, as a percentage of GDP, barely represented 1% as compared to the mean in the countries of the region (Latin America) at a similar stage of development, such as Peru, Brazil, Bolivia, Argentina and Colombia, where it amounted to 9.8%.

Figure 7: Extraordinary fiscal support as % of GDP, 2020



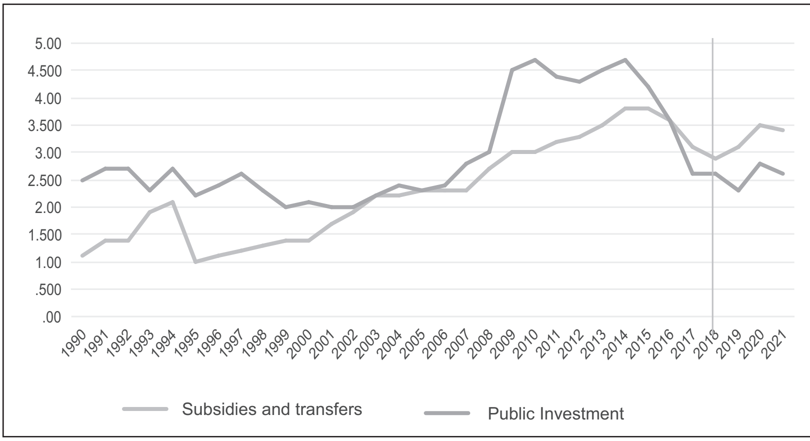
Source: Own elaboration based on IMF (2021).

Even before the Coronacrisis, the orthodoxy of the current government was characterized by reengineering public spending through channeling current spending to increase the clientelist programs (most of them, driven by electoral goals), and further weakening spending on public investment, Figure 8.

[17] As of June 2021.

[18] Out of 20 countries with the highest number of COVID cases, Mexico was only surpassed by Peru with 571 deaths per each 100,000 inhabitants, Brazil with 223, the United States with 181 and Colombia with 180.

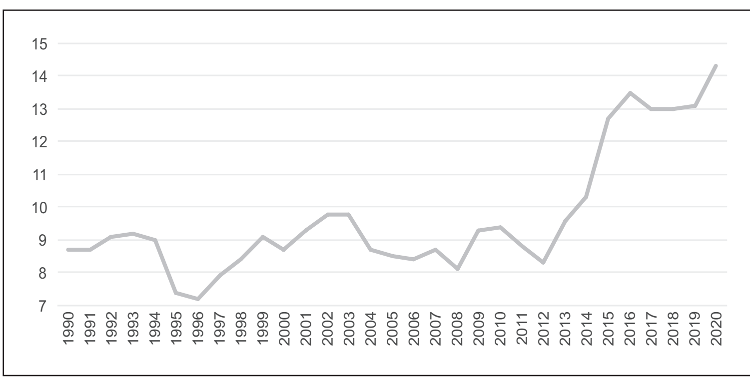
Figure 8: Mexico: Subsidies and Transfers and Public Investment (% of GDP) 1990-2021



Source: SHCP (2022).

Similarly, it is notable that during the 2019 Mexican recession (contrary to the world, Mexican GDP decreased by -0.19%), and still during the 2020 depression (-8.2%), tax revenues increased, Figure 9.

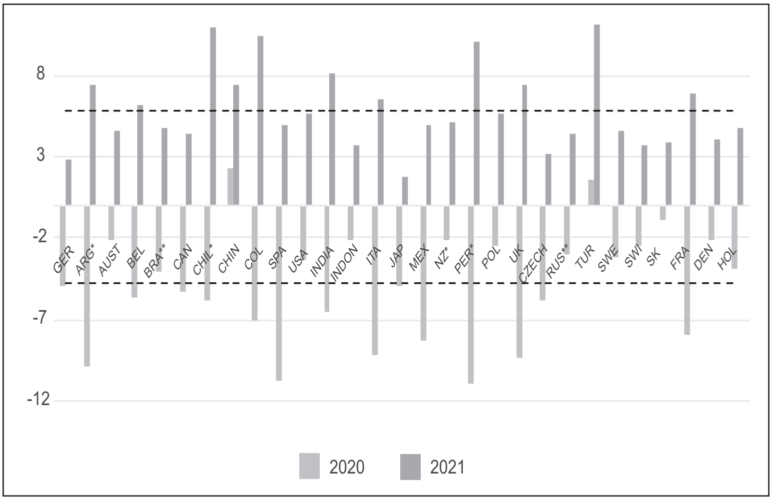
Figure 9: Tax revenue (% of GDP), 1990-2020



Source: Own elaboration based on SHCP (2021).

In 2020, the healthcare and economic management of the pandemic in Mexico derived in a severe – unnecessary – economic fall (-8.2%), a lot greater than that observed, on average, among other countries, Figure 10.

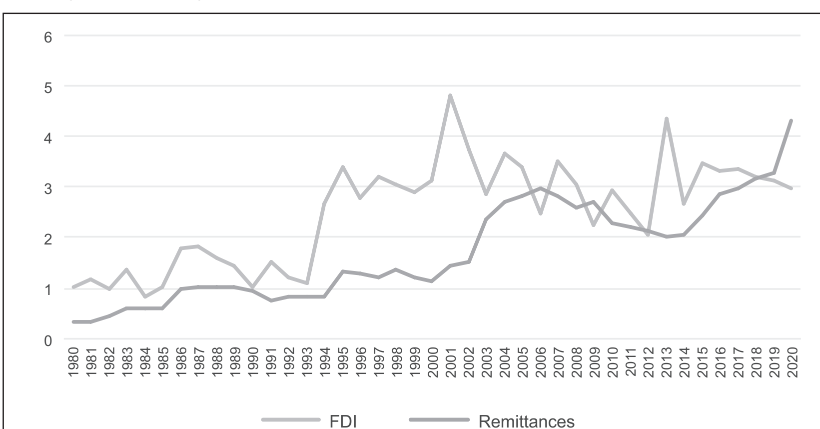
Figure 10: GDP growth, 2020 and 2021



Source: Own elaboration based on FRED (2022).
* IMF (2021) estimates for 2021, October 2021.
** IMF (2022b) estimates for 2021, January 2022.
Average drop in 2020: -4.8%. Average growth in 2021: 5.8%.

Therefore, and due to the lack of a counter cyclical domestic economic policy and incentives to the foreign direct investment, the recovery has been (and will be) dependent on the stimulus originated from manufacturing exports to the U.S. and from the increase (at a historical record high) in remittances that will keep private consumption relatively stable, and the balance of payments and the exchange rate in line, which are the consequences of the fiscal stimulus package in that country, Figure 11.

Figure 11: Foreign Direct Investment and Remittances (% of GDP), 1980-2020



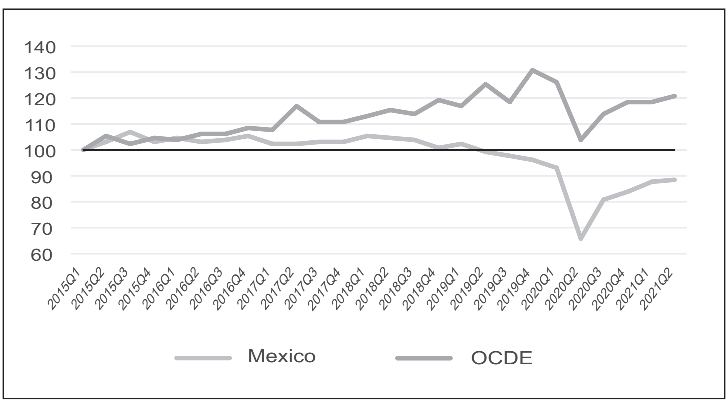
Source: Own elaboration based on Banco de México (2022).

This forecast of a weak economic recovery in the coming years (up to 2024) can be derived from analyzing the historical growth accounting from the demand factors (Table 2) and from the abrupt fall in the growth trend, Figure 13.

Regarding the first point, Table 2 clearly shows the following stylized facts coming from the growth path of the Mexican economy:

1. The contribution of Private Consumption (C) to growth has been the largest, except for the period 1982-1998 (known as the Lost Decade), in which it fell drastically. Something similar, although to a lesser extent, occurred after the Great Recession of 2009.
2. For the entire period, public spending (investment and current expenditure, IG and CG) was not the engine of growth in the Mexican economy.
3. Nevertheless, Government Investment has been decisive in the country's lack of economic dynamism. While in the first period it reached its maximum contribution with 14%, since the adjustment and the structural change of the 1980s, it has fallen systematically to the point of contributing negatively since 2010, thus affecting private investment. Private investment (IP) fell sharply since the arrival of the current government, Figure 12.

Figure 12: Gross fixed capital formation, 2015Q1 = 100
2015Q1-2021Q2



Source: Own elaboration based on OCDE (2022).

4. Net Exports (NX) and Inventories (II) only contributed positively during recessionary phases, which is explained by the strong reduction in imports and in domestic sales that makes companies accumulate inventories involuntarily.

Table 2: Mexico: Growth accounting by periods, 1970-2019[19]

Period	Y	C	IP	IG	CG	NX	II
1970-1981	6.80	0.64	0.15	0.14	0.12	-0.01	-0.04
1982-1988	0.30	0.30	-0.05	-2.35	0.50	1.21	1.39
1989-1994	3.86	0.80	0.26	0.09	0.09	-0.27	0.02
1996-2008	3.08	0.86	0.33	0.11	0.05	-0.10	-0.25
2010-2019	2.38	0.74	0.28	-0.08	0.07	-0.92	0.96

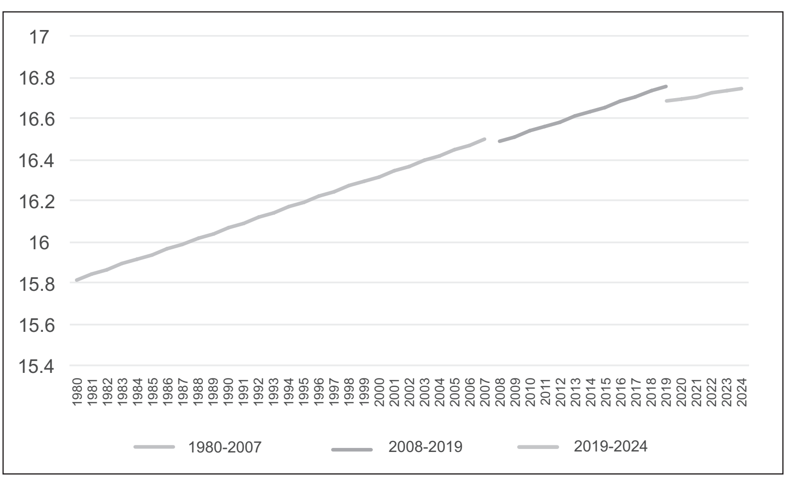
Source: Own elaboration based on INEGI (2022).

Y = GDP growth of the period, C = Private Consumption, IP = Private Investment, IG = Government Investment, CG = Current Public Expenditure, NX = Net Exports, II = Inventories.

All variables are percentage contributions to GDP growth.

According to recent forecasts – CEMPE (2022) and IMF (2022b) – and by making linear adjustments, Figure 13 clearly shows the permanent growth-reducing effect of the economic crises of 2009 and 2020: from 2.52% (1980-2007) to 1.26% for the most recent period.

Figure 13: Mexico: Economic growth.
Structural changes by periods, 1980-2024



Source: Own calculations. Linear (log) estimations based on CEMPE (2022).

[19] We make the estimation up to 2019 because the Coronacrisis completely affected all variables and can generate analytical bias.

5. CONCLUSIONS

During the first years of the Great Depression (GD) [1929-1932], the Mexican government – just like the U.S. government – followed the orthodox thought to attain fiscal balances. However, thanks to the change in the policy derived from the New Deal, the government implemented opposite measures and institutional changes to pull out the economy from the long deflation, which were crucial for the future of the country.

We show that the GD enabled the reconsideration of the prevailing economic ideas, which, in turn, challenged the mainstream economic theory and allowed for public interventionism and heterodox policies, even before the publication of *The General Theory* by Keynes in 1936.

Changes in the economic paradigm are highly complex processes that result of a constant conflict of ideas and the contrast with reality. The prevalence of paradigms depends on the capacity to solve the problems society faces in each moment and context.

The current Mexican government (2018-2024), considering its insistence on conducting orthodox fiscal policies and on resorting to the populist narrative (harming domestic and foreign direct investment), could hardly turn the rudder around and shift the narrative to restore confidence to the Mexican and foreign business sector and Mexican consumers over the following years. As a consequence, since 2021 economic rebound has been weak and erratic, and growth will depend on the U.S. recovery and remittances.

The historical experience of the classic populisms (Dornbusch and Edwards, 1991) has taught us that these experiments always end up tragically, to a larger extent, affecting the economic sectors they said they would protect (the poor), those who tend to have fewer tools to defend themselves from the economic crises and catastrophic events.

The populist recipe seems to be quite simple to follow, as it shows that the leader truly represents the good people (the poor), who were historically oppressed by the corrupt and oligarchic elite (Werner-Müller, 2017), which justifies the acts of the leader and shields him from mistakes. But this way of governing always entails sharp falls in growth rates, along with macroeconomic imbalances, which eventually can be resolved only through painful adjustment programs á la IMF, which received criticism and condemnation as the cause of the social unrest that brought such leaders to power.

The historical experience and the economic theory have shown that it is possible to increase the productive capacity of a country by using policies that reduce structural rigidities and by improving the institutional framework, which, in turn, favors labor conditions, boosts productivity and technological innovation and encourages competition (Klein, 1990), essentially by promoting private investment.

The history of economic thought is key in understanding how the economies worked yesterday, how they do it today, and, above all, how they will do it tomorrow considering the revolution of scientific paradigms and the historical experience.

There is no right-wing or left-wing economic theory beforehand being correct. There can only be the right theory for the right moment.

Karl Marx once said that history first happens as a tragedy and is later repeated as a comedy. The Mexican case, just like the case of other populist countries, is a new explosive combination that will end up becoming a terrible tragicomedy. Just like doctors, economists should understand that crises are opportunities for change, and they mean long-term problem resolutions. Once again, the validity of the 1936 Keynes' theory is unquestionable, just like it was in the resolution of the 2009 Great Recession.

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