

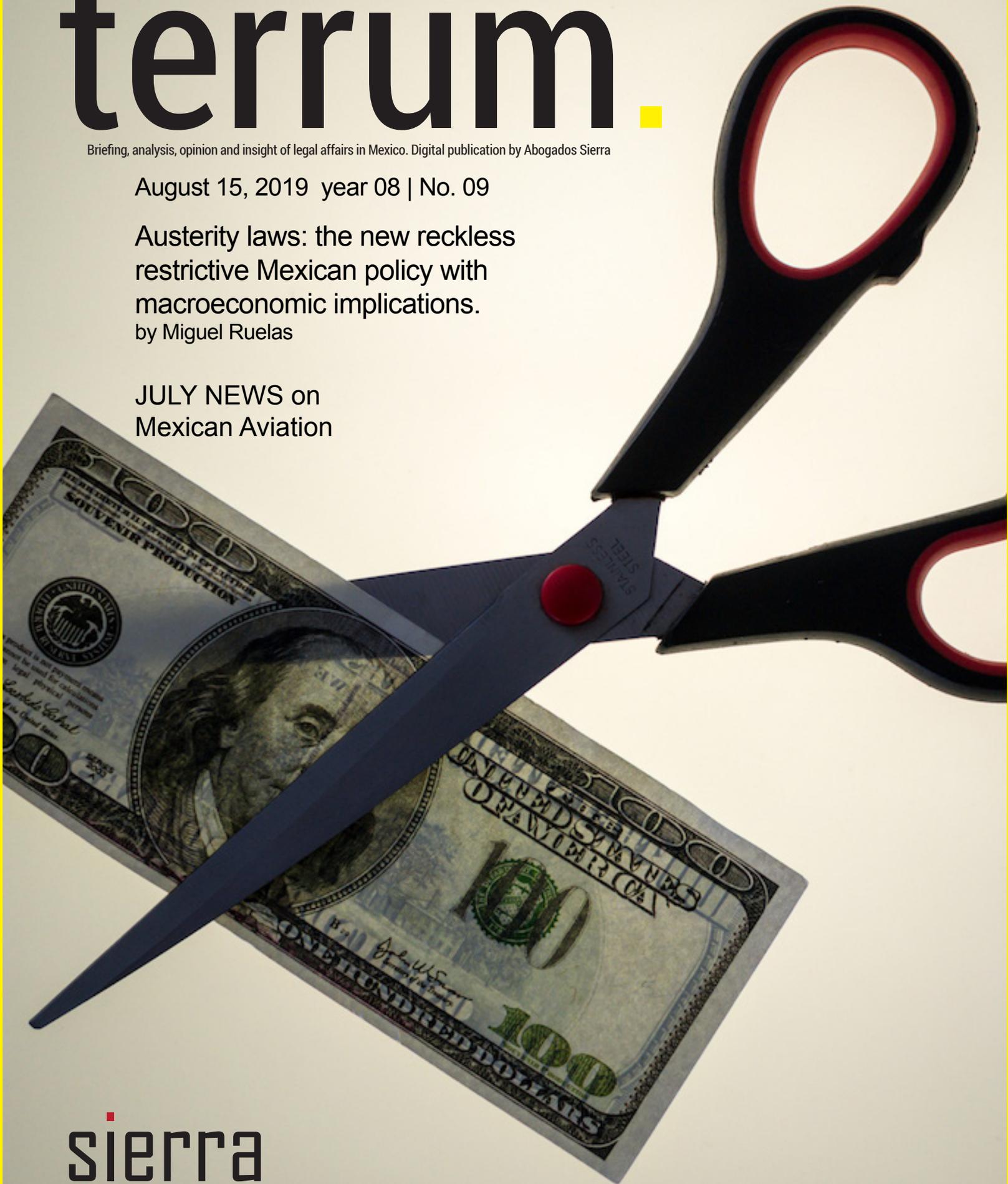
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Austerity laws: the new reckless restrictive Mexican policy with macroeconomic implications.  
by Miguel Ruelas

JULY NEWS on  
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"DILIGITE JUSTITIAM QUI JUDICATIS TERRAM." "Ye who judge the earth, give diligent love to justice"

## Austerity laws: the new reckless restrictive Mexican policy with macroeconomic implications.

by Miguel Ruelas.

**F**ifi (pronunciation: fee-fee). A slang word taken and redefined by the current president of Mexico that will have defined the public and economic policy of this administration. For Mexicans, its definition is broad but comprehensive, a term that exacerbates the social class divisions in an already fragmented society. For those less familiarized with the term, it can be generally resumed as 'referring to the upper and middle-class Mexicans, and anybody else that shares the opinion that the best economic policy for a country is a capitalist<sup>1</sup> system or anything different to the president's restrictive economic policy'.

*"It is precisely in this over encompassing categorization that the problem lays, confusing the private and public sectors of the civil society in one deprecating word. One in which corrupt politicians and colluded officials share the same slang word grouping as other members of the private civil society."*

Mr. Andres Manuel Lopez Obrador, secured his presidential position, by appealing to its electorate that the *fifis* had long abused the Mexican society, ransacked the country, and in short, were the cause of all evil. The Mexican president has called *fifis* many kinds of members of the Mexican society, amongst them, rich and corrupt politicians from past administrations – some of them ironically in his cabinet-, the Mexican robber barons, hard-working industrials, the middle class, and even the press that has gone against or questioned his rather unprecise policies. It is precisely in this over encompassing categorization that the problem lays, confusing the private and public sectors of the civil society in one deprecating word. One in which corrupt politicians and colluded officials share the same slang word grouping as other members of the private civil society. For the president, they are all *fifis*, and they are ought to be punished and restricted. As a result, the Mexican president has envisioned certain 'policies' - factually better categorized as tantrums and historic paybacks - that do not envision the short or long-term socioeconomic and political implications.

### Confusing public and private

By not making the distinction between the private and public sectors of the country, Mr. Lopez Obrador is designing a restrictive economic policy that is not tailored-made for Mexico, but rather an aggressive pen stroke that threatens the past economic advancements in Mexico and the private working and productive spheres of the Mexican workers by overlapping the need to end corruption at the cost of amputating private initiative.

It cannot be denied the need to tackle the evident corruption scandals and shameless robs to public funds in Mexico<sup>2</sup>, but an effective policy that implements sanctions, controls, compliance and efficiency in this aspect may not come at the cost of neutralizing production, limiting private property and free will of professionals. This policy to reduce corruption and the lavish allowances and contributions in the federal government came as a call for "austerity" which the President commissioned to the lower chamber of deputies where his party

1.- The definition of capitalism in this mock definition makes no allusion to specific streams of capitalism but rather the general concept of an economic system based on private property for production and development of capital markets as opposed to a more state-control and social-funding policy for production.

2.- According to the OECD study on cost of corruption (2017), the cost of corruption in Mexico represents above 5% of Mexico's GDP. <https://www.oecd.org/gov/ethics/estudio-integridad-mexico-aspectos-claves.pdf>

holds majority. The project law was titled *Ley de Austeridad Republicana* ("Law of Republican Austerity")<sup>3</sup>.

## What "Austerity" truly means

This Austerity law foresees well thought mechanisms to reduce government spending, tackling factual problems that allowed funds to be misused, played with, and eventually lost, however, it overlaps with constitutional freedom rights and principles of private property and free will that demonstrate how it was written as a *fifi* witch hunt and not as a public policy that safeguards the well-being of a nation. The provisions of this new austerity law are in reality an attack to the working Mexican class that aims to hinder private initiative, employment freedom and limits well-developed mechanisms of the private sectors, amongst them, the use of trusts, the freedom of expert counsel consulting hiring, and hidden use of public funds aimed towards political uncertainty and away from financial and private '*fifi* way of life'. Some of the multiple preoccupying provisions that the law envisions are:

### 1. The prohibition for federal government official to hire consulting services to professionals.

This provision is mentioned throughout several portions of the law, particularly Article 12(V), in which it restricts the use of hired third-party consulting services. It seems bluntly arrogant to believe that no governmental division would eventually need to hire expert consultants in specific projects, especially with the proposed oil refinery construction in Dos Bocas, Veracruz commanded by the president and the Mayan Train mega project in the Yucatan Peninsula. For starters the Mexican delegation at the World Trade Organization has expressed their utter concern on this provision for obvious reasons.

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### 2. The prohibition for past public officials to work for the private initiative.

Art. 24 of the approved law states: "Public servants that have occupied a prior position in government and that have privileged information are forbidden to work for the private initiative for at least 10 years after leaving their government position". Members of the opposing parties have expressed their concerns, affecting 1.4 million<sup>4</sup> public servants that are suffering a violation to their freedom to work, a constitutional right foreseen under the Mexican constitution.

3.- Approved by the Senate on July 2nd, 2019. The law has not yet been publicized in the Federal Gazette as a result of being approved on the last day of the Senates ordinary session. The Senate will resume activities after the summer, after which it shall resume ordinary course and sent to the executive for it to be publicized in the Federal Gazette, and then determine its full entry of force and law. [http://www.diputados.gob.mx/LeyesBiblio/iniclave/64/CD-LXIV-I-2P-061/01\\_minuta\\_061.pdf](http://www.diputados.gob.mx/LeyesBiblio/iniclave/64/CD-LXIV-I-2P-061/01_minuta_061.pdf)

4.- As stated by Senator Vanessa Rubio from the opposing party at the Senate discussions and stipulated on the Debates Diary ("Diario de Debates Del Senado"), quoting the current number of federal public servants in accordance with data from the National Institute of Geography and Statistics ("Instituto Nacional de Estadística y Geografía"). [http://www.senado.gob.mx/64/gaceta\\_del\\_senado/documento/26732](http://www.senado.gob.mx/64/gaceta_del_senado/documento/26732)

### 3. Forbidding the use of government trust structure in health, education and social security matters.

Article 17 forbids the creation of trust structures in the above matters. Furthermore, all other trusts that may be created are to be: i) subject to a maximum amount corresponding to the total budget of the project; and ii) be necessarily created by the Secretary of Treasury and Public Credit (“Secretaria de Hacienda y Crédito Público). Deeming now all trusts with public funds be, government handled, and controlled.

*“However, the most alarming part is the discretionary faculty granted to the President to whimsically determine the use of these funds. This principle violates the division of powers, and grants authority to the Executive power to use them for whichever fund he deems necessary.”*

### 4. Finally, and the most preoccupying, the assignment of the “savings” produced by the “austerity measures” foreseen by the law:

Art. 61: The savings generated as a result of the application of this [law] measures are to be destined in the terms and applicable terms to the program that generates them. Regarding the Executive Power, said savings are to be destined to the programs foreseen under the National Development Plan (“Plan Nacional de Desarrollo”<sup>5</sup> or the assignment that the executive head determines by decree”.

The National Development Plan , lacks any normative power to determine use of resources. Furthermore, the current National Development Plan of this administration is a wholehearted document of ‘good intentions’ that envisions the need to reduce poverty in Mexico with no concrete action plan, other than prioritizing the less fortunate. However, the most alarming part is the discretionary faculty granted to the President to whimsically determine the use of these funds. This principle violates the division of powers, and grants authority to the Executive power to use them for whichever fund he deems necessary. This may include political propaganda, buying votes, and no clear mechanism of transparency.

Austerity is a strong word that was used by the drafters of the law to disguise the political and economical power granted to the President. A law filled with provisions to halter and restrict private initiative through private banking, private employment and expert counsel hiring. The “savings” produced by the law are yet to be seen and projected once the new Federal Income Budget “Presupuesto de Ingresos”<sup>6</sup> for the next year is proposed by the Executive. The outcome is a law made with no studied policy in mind, that will have collateral effects in an already decreasing economy, but beyond the economical deviations it could cause, we are to see how much money our president is hoarding for power, and if he will, as he usually does, decide how to spend it based on a “raise your arm” poll at the next public plaza he visits.

5- The National Development Plan (“Plan Nacional de Desarrollo”) is issued in accordance with Article 26 of the Mexican Constitution and elaborated the objectives, priorities and strategies of the new federal administration once they take office. It is made to represent the policy axis of the administration. <http://gaceta.diputados.gob.mx/PDF/64/2019/abr/20190430-XVIII-1.pdf>

6- In accordance with article 74 of the Mexican Constitution and articles 39,40 and 42 of the Federal Law of Budget and Treasury Responsibility “Ley Federal de Presupuesto y Responsabilidad Hacendaria” the Income Budget Law shall be presented to the Chamber of Deputies at the latest on the 15th of November of the year prior to that referred in the law.

**The Mexican peso registered its second worst fall of 2019 after the resignation of Urzúa; loses 1.37% against the dollar.**

On July 9th, the Mexican peso suffered its worst fall against the dollar so far in 2019. The exchange rate ended operations at the level of 19,1610 units, with data from the Bank of Mexico (Banxico). This meant a decline of 25.85 cents or 1.37% against Monday's close of 18.9025 Mexican pesos per dollar. The equivalence was stable until due to information from the Federal Government, it changed when the current holder of the Ministry of Finance and Public Credit, Carlos Urzúa, presented his resignation to President Andrés Manuel López Obrador. <https://www.eleconomista.com.mx/mercados/El-peso-registra-su-segunda-peor-caida-de-2019-tras-la-renuncia-de-Urzua-pierde-1.37-contra-el-dolar-20190709-0101.html> 09/07/2019.

**Pemex Business Plan 2019-2023.**

The President supported the Pemex Business Plan and said that after the resounding failure of the Energy Reform, the plan is on its way to the rescue of the country's energy industry. The President reiterated that the government will offer support to rescue arrangements to the national oil industry during the first half of the administration, so that a production of more than 2 million 600 thousand barrels of oil per day is reached towards the end of the administration, at which time Pemex will be able to strengthen Mexico. <https://www.gob.mx/sener/es/articulos/presenta-el-presidente-de-mexico-andres-manuel-lopez-obrador-el-plan-de-negocios-pemex-2019-2023?idiom=es> 17/07/2019.

**Trump's Wall: The Supreme Court authorizes the government to use \$ 2.5 billion from the Pentagon to fortify the border with Mexico.**

The United States Supreme Court gave President Donald Trump a green light on Friday to use \$ 2.5 billion of Pentagon funds to build a section of the wall on the southern border. The highest court decided to block by five votes against four a ruling by a federal judge that prohibited the president from using federal money to finance border barrier projects in California, Arizona and New Mexico. In a message on Twitter, Trump called the decision a "victory" and a "grand prize for border security and the rule of law." <https://www.bbc.com/mundo/noticias-internacional-49135178> 27/07/2019.

**AMLO Is Struggling to Match High Expectations With Harsh Realities in Mexico.**

Mexican President Andres Manuel Lopez Obrador does not waste time with mundane political rhetoric. Long before he won the presidency on his third attempt, a year ago this month, the man better known in Mexico as AMLO had already gained a reputation for setting sky-high expectations. <https://www.worldpoliticsreview.com/articles/28074/amlo-is-struggling-to-match-high-expectations-with-harsh-realities-in-mexico> 29/07/2019.

**The Ministry of Treasury announces a plan of 485,000 million pesos to face the economic slowdown.**

Amid the expectations that Mexico is about to enter a technical economic recession, the Secretary of the Treasury, Arturo Herrera, announced Monday measures for 485,000 million pesos (MDP) that seek to have an immediate impact on the economy. The three axes of the plan are: investment in infrastructure, advance tenders for 2020 and financing to "PYMEs" (by its acronym in Spanish, Pequeñas y medianas empresas), and mortgage loans through development banks. <https://expansion.mx/economia/2019/07/29/hacienda-lanza-plan-para-enfrentar-desaceleracion-economica> 29/07/2019.

**North American Free Trade Agreement (NAFTA) replaced with the Treaty between the United Mexican States, the United States of America and Canada (T-MEC).**

On June 19, 2019, the Senate of the Republic approved the T-MEC and related legal instruments which were published on the Official Journal of the Federation on July 29, 2019. For the Treaty to enter into force, the United States and Canada must complete their internal legal approval procedures. Subsequently, the parties of the T-MEC must carry out an exchange of diplomatic notes, indicating that they have concluded said procedures in order for the Treaty to enter into force, which will be announced by means of a promulgation decree issued by the President of the Republic. <https://www.gob.mx/se/prensa/decreto-aprobatorio-del-tratado-entre-mexico-estados-unidos-y-canada-t-mec> 29/06/2019.

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