



## Mexico's Fascinating 2006 Presidential Election

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The election of Vicente Fox as president of Mexico in 2000 was a major event in Mexican history in that, after 71 years, it showed alternation in power among the country's political parties was possible. The presidential election that will take place on July 2, 2006, takes the reality of alternation a giant step further. The Fox presidency can now be seen as a transitional period away from the authoritarianism that had existed earlier; this year's presidential contest among three major candidates is establishing the solidity of Mexico's electoral democracy. There still are flaws in the governance of Mexico, on which more later, but Mexicans no longer need to be defensive about how the country chooses its president.

I recently spent some time in Mexico on other matters, but I found that I could not escape discussion of presidential politics. There are three major candidates, and two others who are not contenders but may turn out to be spoilers. The current leader in all the polls is Andrés Manuel López Obrador (AMLO), the head of government in the Federal District before he resigned to run for president. AMLO is the candidate of the Partido de la Revolución Democrática (PRD) and is considered to be the most left-leaning of the three major candidates. Felipe Calderón Hinojosa is running second in the polls, just a few percentage points behind AMLO. Calderón is the candidate of the Partido de Acción Nacional (PAN), considered to be the most conservative of Mexico's major political parties. Calderón is a former minister of energy. President Fox is from the PAN. Calderón was not his choice as candidate, but the members of the party decided otherwise. Roberto Madrazo is running just a few points behind Calderón. Madrazo is from the Partido Revolucionario Institucional (PRI), which had a monopoly on the presidency from 1929 to 2000 and was all encompassing in ideology. Madrazo is a former governor of the state of Tabasco and was subsequently president of the PRI, until he resigned to run for president. He is generally considered pragmatic rather than ideological.

The polls vary depending on when they are taken, and who takes them, but they show AMLO in the mid- to upper-30

percent range, Calderón in the high 20s or low 30s, and Madrazo in the mid- to upper 20s. The two other candidates have about 2 percent each. Mexico almost surely will have a plurality president. The strength of each major candidate varies by region of the country: AMLO dominates Mexico City and is strong in the south; Calderón has great strength in the north and east central part of the country; and Madrazo does reasonably well in all parts of the country but is not the leader in the polls in any of the major regions. The PRI is the best organized party in Mexico, and the PRD is probably the least organized on a national basis. The PRI, as this is written, controls 18 of Mexico's 31 governorships (out of 32 if the Federal District is included), an important advantage in a country that is becoming more decentralized than it was under the authoritarian governance that existed earlier.

Any of the three leading candidates can win. It is unlikely that the victor, whoever he is, will have a majority in the congress. The next Mexican president will have to learn how to negotiate effectively with his opposition in the congress, a talent that Fox did not have. This has been a major problem of governance in Mexico; structural problems that urgently need attention have been left festering. On the other hand, financial solidity was assured by a dominating finance minister and a strong head of the central bank. Mexico's next president will inherit a country that has financial balance and low debt, particularly external debt, but horrible problems of low tax collection, labor inflexibility, incoherence in energy policy, an unsatisfactory educational structure, especially at the primary and secondary levels, and a weakening social security apparatus, which includes health care.

These are the issues on which President Fox made little progress because of the political divisions between the executive and the congress. This failure has led to inadequate growth in Mexican GDP, which averaged only about 2 percent a year during Fox's tenure. Based on social security data, only about 725,000 jobs were created in the formal private sector in the first five years of Fox's tenure, and many, perhaps most, of these were temporary. This is a

far cry from the roughly 800,000 to 900,000 new jobs needed each year; it is thus not surprising that the informal economy has grown, as has emigration to the United States.

These are major failures of Mexican governance, and they can be devastating if not corrected in the next *sexenio* (six-year presidential term). They come on top of the great inequality in Mexican income distribution, high poverty, and great regional economic and political differences. Mexico also has the reputation, undoubtedly deserved, of high corruption, and this has engendered deep cynicism among the population. Few in Mexico believe there is equality before the law, and this surely ranks as a leading deficiency of the country's democracy.

AMLO was a popular head of government in Mexico City and much of his support will come from the lower-income segments of society. Based on what I have observed, the educated middle class is apt to support Calderón, as are most businesspeople. Longtime PRI stalwarts are likely to remain with Madrazo, but there are defections based on Madrazo's mediocre reputation for probity. The PRI has long dominated in rural areas, and there is no reason to expect that the party has weakened in this respect.

The formal campaign did not get under way until last month and the substantive positions taken by the candidates have been general. There are some important issues that are so sensitive that one should anticipate that the candidates will dance around them. This includes tax, and hence fiscal, policy; and, connected with this, the near certain assurance that Pemex, the national oil company, will not have enough resources to augment its exploration for new sources of natural gas and oil. The government, in an average year, collects about 12 percent of GDP in taxes, but spends at least 18 percent of GDP to run the public sector. Mexico's GDP is about \$750 billion, measured at current market exchange rates. (Last year, government expenditures exceeded 20 percent of GDP, and the extra money came from underestimating oil prices in the original budget.) In most recent years, the additional 6 percent of GDP was taken from Pemex, which left the government oil monopoly short of capital for new and expensive exploration, especially in deep waters of the Gulf of Mexico; this is taking place even as Mexico's proven oil reserves can last only about 12 years at the current rate of production, and Mexico is becoming an ever larger importer of natural gas and refined products, such as gasoline. This dilemma can be resolved by collecting more taxes and relieving Pemex of some of its tax burden, or permitting foreign equity investment in oil and gas projects, or by a lucky strike. Except for Calderón to a limited extent with respect to natural gas, this complex of issues is not being discussed meaningfully by the candidates. Yet, it almost surely will be something that will have to be addressed by the next president, whoever he is.

There has been a spate of articles during the past several years that have emphasized the election of left-leaning presidents in Latin America. The cases cited are President Lula da Silva in Brazil, President Hugo Chávez in Venezuela, the socialist Michelle Bachelet succeeding the last socialist, President Ricardo Lagos, in Chile, President Tabaré Vázquez in Uruguay, President Néstor Carlos Kirchner in Argentina, and President Evo Morales in Bolivia. The situation in each of these countries is different, and pointing to a uniform trend oversimplifies it. However, the leading position of AMLO is often cited in these articles. Just as we did not know in advance that Lula's economic policies would be more mainstream than leftist, we don't know what macroeconomic positions AMLO will take, should he win.

The next president can set the tone for Mexico's development policy for more than his own *sexenio*. If action is taken to change policy on the structural issues cited here, that could lead to higher economic growth rates and greater job creation than in the past; if this is coupled with continued low inflation, a pattern could be set that would place Mexico on a favorable path for improved economic performance for many years to come. Accomplishing this is the challenge for the next president. It is doubtful that the electoral campaign will tell us much about the next president's plans, but he will have to get a fast start on whatever these are when he takes office in December 2006. He also will have to learn fast how to work out deals with a congress that will likely be dominated by opposition parties.

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