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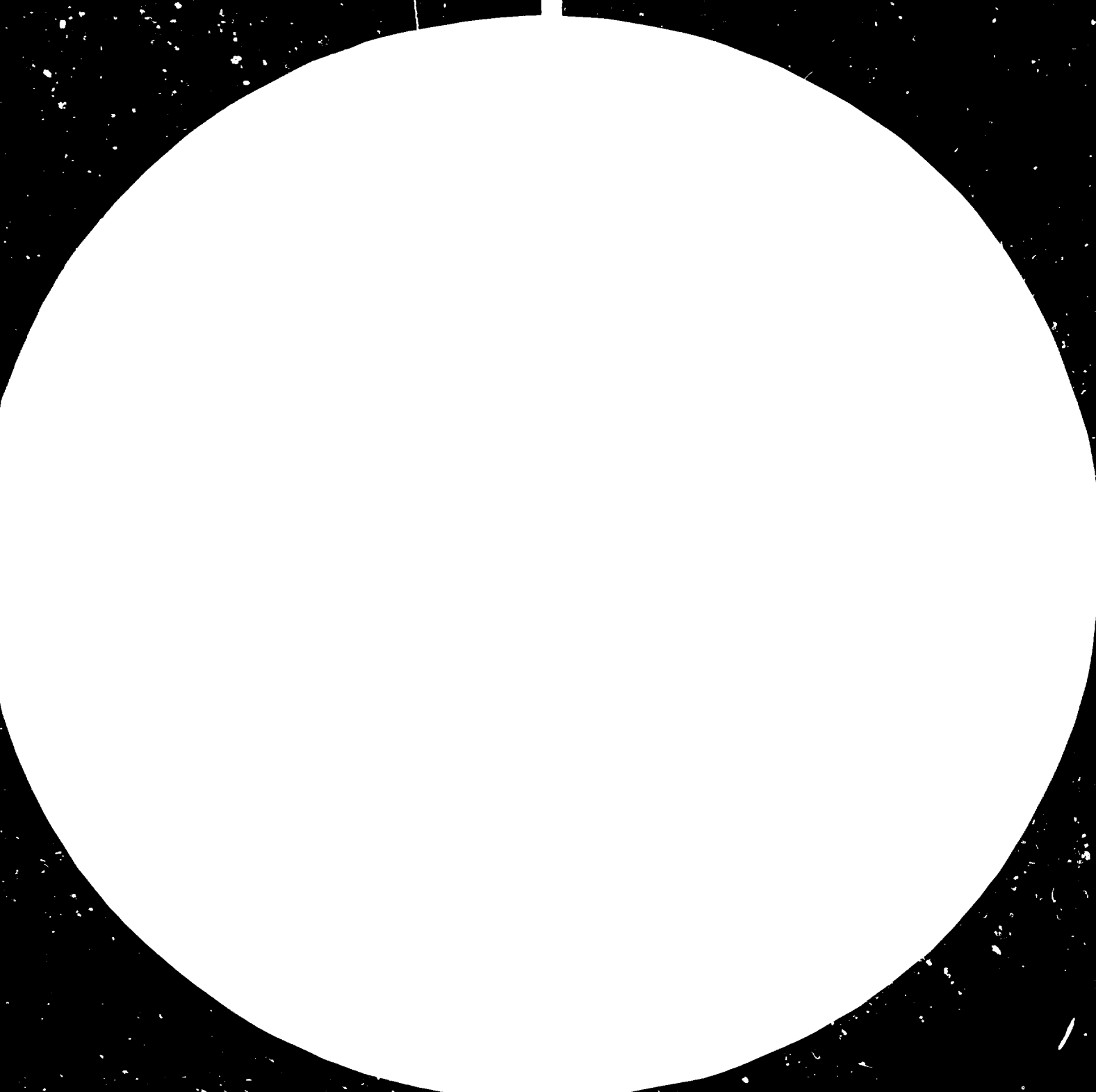
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Resolution Test Chart, NBS 1963-A, 28 x 36 in. (711 x 914 mm)

Resolution Test Chart, NBS 1963-A, 28 x 36 in. (711 x 914 mm)



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MACROECONOMIC ROLE OF PUBLIC ENTERPRISES
IN THE DEVELOPMENT PROCESS: THE MEXICAN CASE*

by

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INTRODUCTION

The State has played an important role in the Mexican economy since the late 1930s. It has exerted an influence not only through monetary, fiscal, industrial and commercial policies, but also through direct intervention in infrastructure and state enterprises.

The latter have greatly contributed to economic growth in respect to capital formation; their action has additionally favored a suitable environment for the expansion of private investment. However, the public enterprises' price policy has not been adapted to their investment needs originating, in many cases, a slow growth in their productive capacity and, in others, the resorting for the government to high external debt and monetary expansion to cope with their financial requirements.

For the coming years, under the oil perspective, the Mexican economy will most expectedly present an economic profile characterized by accelerated growth and high inflation. In this context, among other policy instruments, the government can utilize the public enterprise, in the macroeconomic strategy, as an instrument to attain sustained growth with relative price stability. This can be done if these enterprises change their financing policy in order to expand their activities so as not to hinder the economic growth of the country.

The main objective of the present analysis is to understand the macroeconomic role of the public enterprise in the process of development, capital formation and savings generation, with the use of a sound pricing policy.

This is of crucial importance because the present oil boom will eliminate the external disequilibrium which had historically constrained growth, but will bring in turn

internal disequilibrium. In other words, this means that the major growth constraint will be the economy's capacity to productively absorb oil revenues, i.e., the capacity to transform a net dollar of foreign exchange into net domestic savings. Therefore, investment growth must be financed with domestic savings, in which public enterprises will have an active and definite role to play.

In the first part of this paper we analyze the macroeconomic role of the public enterprise in savings generation and capital formation in the development of Mexico. In the second part, we bring forward the oil perspective, to see how in this context the constraint to growth shifts from the external to the internal disequilibrium, with the aid of a econometric simulation model. Finally, in the third part, we draw some conclusions towards a public enterprise new strategy in the 1980s. We consider the pricing policy and savings generation as the main elements of this new strategy.

I. MACROECONOMIC ROLE OF PUBLIC ENTERPRISES IN THE DEVELOPMENT PROCESS: SAVINGS GENERATION AND CAPITAL FORMATION

A. Conceptual Framework

The role that capital accumulation plays in the growth process of every country is of unquestionable importance. In the case of less developed countries (LDCs), there are some types of investments which due either to their specific nature, their great importance, their long maturing periods or their low profitability, they are not able to be accomplished by private entrepreneurs. In spite of this, they are necessary for other investments' flourishing.

Very often in these countries, before regulating the market system, the State first has to create it.

In contrast to many other LDCs, Mexico has preserved high

rates of economic growth since the 1940s. It has certainly been due in great part to public investment. The Mexican State as entrepreneur has played an important role in the sustained economic growth during the last 40 years by means of capital formation. In the period 1935-1959 its main contribution was registered in infrastructure through federal investment. It is from 1960 up to nowadays that the public enterprises (PEs) within themselves have become the main form of public investment. Along with a substantial contribution to capital formation and growth, the PE has played a fundamental role in the macroeconomic strategy and policy.

Since 1959 there have been two major development strategies that involved the PE as an instrument. Namely: the "stabilizing development" (Desarrollo Estabilizador) and the "participatory development" (Desarrollo Compartido).

B. "Stabilizing Development" Strategy (1959-1970)

In this period the macroeconomic strategy was directed to achieve price stability as a fundamental condition for growth. To attain this, the exchange rate was fixed, tolerating the external imbalance or current account deficit. PEs had the provision of goods and services at low prices as an objective -a "frozen prices" policy- thus their deficit was covered with external debt, avoiding the use of money creation. In this way the PEs played a two-fold role in the macroeconomic strategy:

- i) On the one hand the fixed or "frozen prices" policy allowed price stability and, through an implicit subsidy, it supported capital formation and savings generation in the private sector.^{1/}
- ii) On the other, this price policy produced a permanent and growing deficit in the PEs' sector (which set behind their increase in productive capacity). The deficit had to be financed with external debt; and this capital movement served in turn to cancel the "foreign exchange gap" and the "savings gap".

That PEs' policy was apparently positive: the economy grew at a 6% average annual rate, while prices only grew at 3.2% during the 1960s. However, the costs were also evident: an expanded external public debt and slow growth in the productive capacity for the key sectors in the economy. The external public debt increased its share to GDP from 6.2% in 1958 to 9.0% in 1967, while the current account deficit growth rate from 1959 to 1970 was 20% annual average. Besides, the whole manufacturing industry grew at an average annual rate of almost 8 per cent.

C. "Participatory Development Strategy" (1970-1976)

In this period investment and production in the PEs sector were promoted. Even when there were attempts to ease the PE pricing policy along with a tax reform, they were not enough to finance the public sector expansion. The PEs deficit was then financed both by external debt and money creation having therefore an inflationary impact in the economy.

During this period the economy grew at an average annual rate of 5%, while the inflation rate was around 13 per cent. The fiscal deficit that represented 1.1% of GDP in 1972, increased its share to 4.6% in 1976.

The supply side of the economy was favored by the expansionary policy, that led to a 6% increase in the gross fixed investment and a sustained production growth in the leading sectors of the economy such as oil 8%, manufactures 6%, construction 9% and electricity 9 per cent. However, once again this could not be attained without costs: the monetary expansion increased at a 21% average annual rate from 1970 to 1976 and the public external debt grew from 4,500 to

19,600 million dollars in the same period, which means an average 27.8% annual growth rate.

D. Development Under the Oil Perspective: Mexico in the 1980s

In the present administration, under the oil perspective, the State has seen how to increase public savings through a public enterprise, "Petróleos Mexicanos (PEMEX)" action confronting to growing oil exports and favorable terms of trade. This relaxes the foreign exchange gap and releases the government from resorting the external debt and money creation but does not guarantee the rise in total savings. In a moment when an intensive investment program must be set in motion in order to increase economic growth, an open question is left in regard to internal equilibrium ($S-I=0$), specially in the context where the Government has decided to use the oil as an instrument in the development process. And here the central point in our discussion arises: in a new macroeconomic strategy, that takes into consideration the oil perspective, which is the new role that public enterprises should play?

II. THE MEXICAN ECONOMY AND THE PUBLIC ENTERPRISES IN THE OIL PERSPECTIVE: THE 1980s

A. From the Foreign Exchange to the Savings Gap in an Oil Exporting Economy

Unlike experience in the past, during the 1980s a new constraint to growth will be set up by the savings-investment gap. There are several new elements that introduce important qualitative changes in the economy; the proven oil reserves of 67,000 million oil barrels, the potential oil reserves of 200,000 million and the production target of 2.7 million oil barrels per day in 1980 -from which 50% will be exported. This means that

the foreign exchange gap will no longer be the principal constraint to economic growth. Instead the new one will be derived from the savings-investment gap, owing to the fact that one dollar from oil exports does not necessarily mean a net dollar will be saved. In the first place, one dollar of oil exports means, caeteris paribus, 58 cents of government revenue which again may go to current expenditures or savings for public investment. The remaining 42 cents neither represent a net saving to PEMEX. In other words, a net dollar of oil export relaxes by the same amount the foreign exchange gap (X-M), but it does not necessarily relax the savings-investment gap (S-I) by the same amount. It thus becomes the new constraint to growth. 2/

Therefore, a macroeconomic strategy for the 1980s must be redesigned in order to emphasize policies aimed at promoting savings and rationalize expenditures, both private and public. In this context public enterprises will play an important role.

From another viewpoint, the oil surplus earnings will widen the degree of freedom in the use of monetary, fiscal, and commercial instruments by diminishing the external disequilibrium, and partly reducing the savings-investment and fiscal disequilibria. The export taxes on oil will permit to finance an important portion of the fiscal deficit without resorting to traditional ways of internal inflationary financing and high external borrowing. This in turn will allow independency in fiscal and monetary policies, increasing flexibility for both. On no grounds does it mean that oil resources must support inefficiency or unreal pricing of goods and services provided by the public sector. Fiscal policy in the future should take this into consideration.

By becoming an oil exporting country, the nature of Mexico's

macroeconomic problem will shift from the balance of payments constraint to the problem of inflation. The following questions arise: what will the change in the foreign exchange gap and in the savings-investment gap be? How will the public enterprises' savings be modified? What sort of macroeconomic strategy and policies must be implemented in the 1980s for the achievement of the new objectives?

In order to have a better comprehension of the aforementioned problems, as well as to answer the posed questions, we have simulated as a first approach three alternative situations in an econometric model, which correspond to three hypothetical levels of oil production and exports (low, medium and high). We have analysed the path the main macroeconomic variables follow, including the public enterprises as a separate sector.

It is convenient to make clear that the simulating exercise does not pretend predictive conclusions, nor does it have a normative character, as its intention is not to set optimum growth rates for the GDP or the oil production and exports levels. It is neither expected from it to state how tax collecting should be modified. Its sole function is to illustrate the nature of the macroeconomic problem Mexico will face in the 1980s as an oil exporting country, and to show the direction and magnitude of the economic policy effort that has to be made in this field.

B. Macroeconomic Scenarios and Public Enterprises:

Simulation Model 3/

1. Alternative Scenarios

The simulation exercise considers three alternative hypothesis in accordance to different oil production and exports levels. The time span goes from 1980 to 1985. We start in 1979 with an oil production level of 1.5 million of barrels per day (bpd) as a yearly average and an oil exports level of 0.6

TABLE II.1

ALTERNATIVE SCENARIOS OF PRODUCTION AND EXPORTS

(1980-1985)

		1979	1980	1981	1982	1983	1984	1985
Alternative Production levels (Million barrels per day)	L	1.500	1.820	2.320	2.570	2.810	3.100	3.300
	M	1.500	1.800	2.540	2.850	3.200	3.700	4.200
	H	1.500	2.200	2.900	3.200	3.700	4.200	4.700
Oil exports (Million barrels per day)	L	0.600	0.820	1.240	1.400	1.500	1.600	1.800
	M	0.600	0.800	1.400	1.700	1.900	2.300	2.600
	H	0.600	1.200	1.800	2.000	2.400	2.800	3.100
Oil prices (U.S Dols. per barrel)		19.70	26.00	28.00	30.00	32.00	34.00	36.00

L = Low scenario

M = Medium scenario

H = High scenario

TABLE II.2
BASIC HYPOTHESIS OF THE SIMULATION MODEL

	1979	1980	1981	1982	1983	1984	1985
Public Consumption*	13	12	11	10	8	9	9
Public Investment*	14	15	15	15	12	12	12
Fixed exchange rate (pesos x dollar)	23.00	23.00	23.00	23.00	23.00	23.00	23.00
Wages*	18	18	18	16	16	16	16
International prices*	11.00	11.00	10.0	9.0	8.0	8.5	9.0
Implicit price Index of imports*	14.0	12.5	10.0	9.0	9.0	9.0	9.0
Public Enterprises (with PEMEX) price index*	11.0	2.25	2.25	2.25	4.5	4.5	4.5
Public Enterprises without PEMEX price index*	12.0	5.0	5.0	5.0	10.0	10.0	10.0

*Annual rate growth

TABLE II.3
SIMULATIONS RESULTS

		1979	1980	1981	1982	1983	1984	1985
GDP real rate of growth (%)	L	7.9	8.1	8.9	7.6	6.0	7.1	6.6
	M	7.9	8.1	9.9	7.8	6.1	8.0	7.1
	H	7.9	8.9	10.0	8.2	7.0	8.0	8.0
Inflation rate (%)	L	18.7	21.7	20.0	16.7	14.0	13.5	14.0
	M	18.7	21.8	20.7	16.9	14.1	13.8	14.0
	H	18.7	22.5	21.5	17.5	14.3	13.9	14.2
CACB GDP (%)	L	2.9	2.4	1.5	1.6	1.7	2.0	2.8
	M	2.9	2.4	0.8	0.7	0.7	0.5	1.2
	H	2.9	0.8	0.0	0.0	0.3	0.6	1.0
Total Saving GDP (%)	L	24.0	24.2	25.3	26.7	27.4	28.1	29.3
	M	24.0	24.2	25.0	26.1	27.1	27.5	28.5
	H	24.0	24.2	24.3	26.2	26.7	27.3	28.5
Public Savings GDP (%)	L	4.4	5.8	7.4	6.9	6.7	6.4	6.0
	M	4.4	5.8	8.5	8.2	8.1	8.5	8.2
	H	4.4	8.3	10.2	9.8	10.0	10.0	9.6
Private Savings GDP (%)	L	16.7	16.0	16.4	18.2	19.0	19.7	20.5
	M	16.7	16.0	15.7	17.5	18.3	18.5	19.1
	H	16.7	15.1	14.6	16.4	17.0	16.7	17.9
Budgetary Fiscal Deficit GDP (%)	L	7.3	6.7	5.5	5.9	6.3	7.3	7.9
	M	7.3	6.7	4.1	4.4	4.7	4.7	5.1
	H	7.8	4.2	2.2	2.7	2.4	2.4	3.4
X + M GDP (%)	L	24.2	24.8	24.9	25.0	24.8	24.6	24.5
	M	24.2	24.8	25.7	25.9	25.9	26.1	26.1
	H	24.2	25.7	27.6	27.9	28.0	28.5	28.8
M GDP + M (%)	L	10.9	11.0	10.8	11.1	11.1	11.2	11.4
	M	10.9	11.0	10.7	11.2	11.2	11.2	11.4
	H	10.9	11.1	11.2	11.6	11.7	12.2	12.5

NOTES: L = Low scenario
M = Medium scenario
H = High scenario

SOURCE: Simulation exercise with aid of the Clavijo and Gómez model
(See complete reference in the paper).

Graph II.1
SIMULATION RESULTS

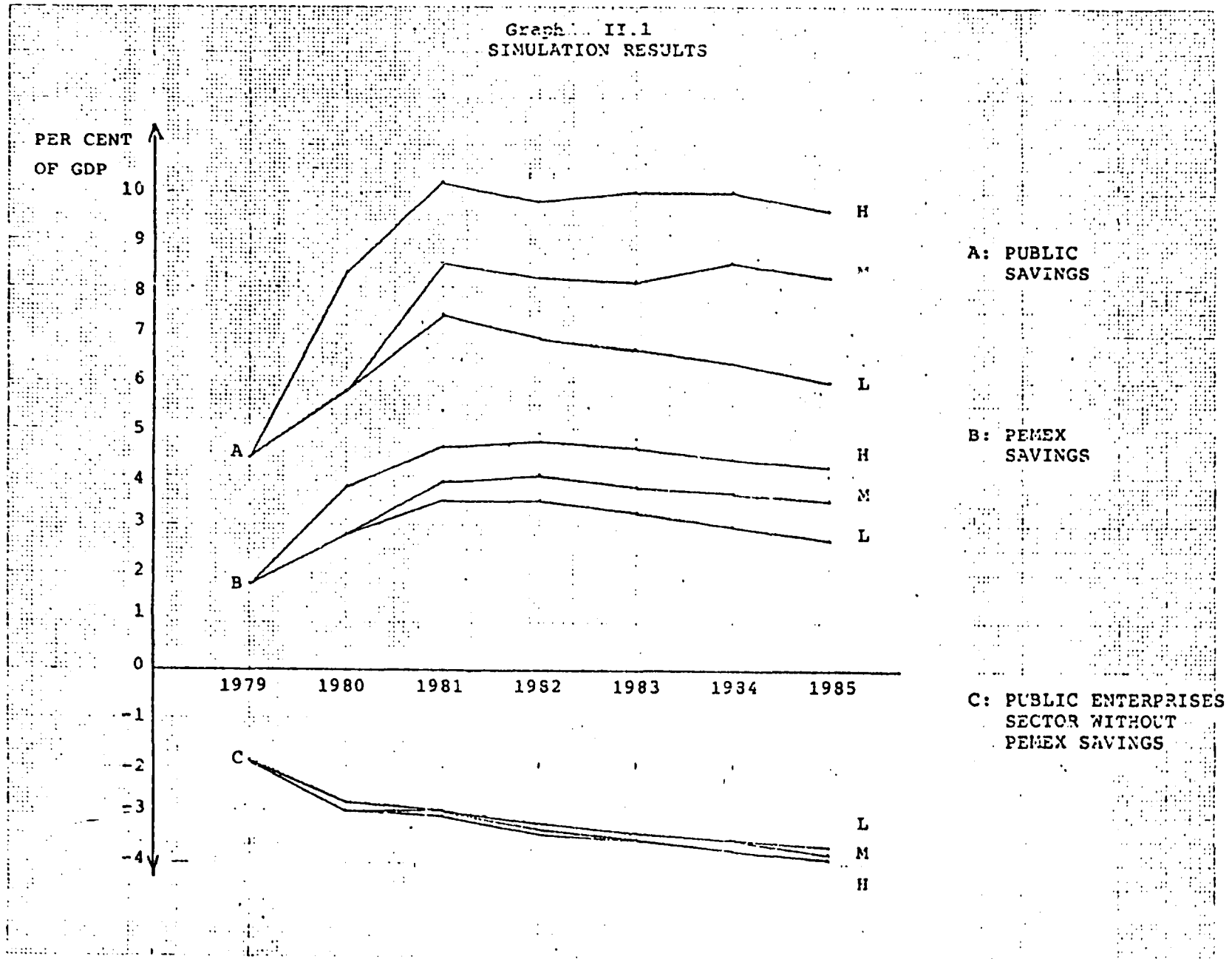


TABLE II.3
SIMULATION RESULTS
(Continuation)

		1979	1980	1981	1982	1983	1984	1985
<u>Public Saving</u> <u>GDP</u> %	L	4.4	5.8	7.4	6.9	6.7	6.4	6.0
	M	4.4	5.8	8.5	8.2	8.1	8.5	8.2
	H	4.4	8.3	10.2	9.8	10.0	10.0	9.6
<u>PEMEX Saving</u> <u>GDP</u> %	L	1.83	2.83	3.45	3.5	3.25	3.01	2.71
	M	1.83	2.83	3.90	4.0	3.79	3.74	3.46
	H	1.83	3.84	4.63	4.67	4.6	4.43	4.18
<u>Federal Government</u> <u>and Federal District</u> <u>Saving</u> <u>GDP</u> %	L	4.43	5.83	6.97	6.83	6.98	7.10	7.16
	M	4.43	5.83	7.56	7.51	7.79	8.29	8.40
	H	4.43	7.19	8.47	8.33	8.78	9.08	9.22
<u>Public Enterprises</u> <u>Sector without</u> <u>PEMEX Saving</u> <u>GDP</u> %	L	-1.86	-2.86	-3.02	-3.43	-3.53	-3.71	-3.87
	M	-1.86	-2.86	-2.96	-3.31	-3.48	-3.53	-3.66
	H	-1.86	-2.72	-2.90	-3.20	-3.38	-3.51	-3.60

NOTE: The non petroleum public enterprises sector savings are underestimated and the Federal Government and Federal District Savings are overestimated because the transfers were not included as Central Sector expenditures nor as Public Enterprises Sector revenues.

million bpd. In the low scenario (L) we attain a production level of 3.3 million bpd exporting 1.8 million bpd in 1985. In the medium scenario (M) we attain levels of 4.2 and 2.6 million bpd of production and exports for the same year. Finally, in the high scenario (H) levels of 4.7 and 3.1 million bpd are to be attained in 1985. In all cases the domestic oil demand is first satisfied and the surplus is exported (see Table II.1).

Among the basic assumptions (see Table II.2) we selected a very conservative oil price of 26 dollars per barrel in 1980 -which has already increased- with a 2 dollars per year increase up to 1985. This assumption was chosen because our objective is to show the macroeconomic impact of a rise in the volume of oil production and exports, and not the result of a change in the terms of trade. In addition we assumed an ad-valorem export tax on oil of 51%, as the situation was in 1979.

We have also assumed that the public enterprise sector will continue to subsidize the private sector by means of a low pricing policy. The domestic prices of PEMEX products neither have any increase. In regard to the remaining public enterprises we are assuming that their prices will be sensibly lower than those of the economy as a whole. (See Table II-2).

This is to notice the kind of impact originated by this policy on the internal constraint to growth.

2. Results

The model's estimates (see Table II.3 and Graph II.1) indicate the external constraint is sensibly relaxed as the levels of oil production and exports are raised, as the ratio current account balance/GDP shows. This is particularly true of the medium and high scenarios, in which the above ratio is

reduced from almost 3% in 1979 to 1% in 1985.^{4/} However, as the foreign exchange gap is reduced, a new constraint arises: the savings-investment gap. While the share of total savings to GDP (which equals the share of total investment to GDP) rises from 24% in 1979 to 28.5% in 1985 for the medium and high scenarios (a rise of 4.5 points), internal savings have to increase in a greater proportion, from 21.1% in 1979 to 27.3% and 27.5% in 1985 (a rise of 6 and 6.5 points respectively). In other words, as the economy grows and generates oil exports in the first half of the 1980s, it will generate foreign currency; but to give these resources a productive use, they have to be directed towards effective domestic savings. Namely one dollar from oil exports is not and does not become automatically a dollar of domestic savings.

In this context the role of oil exports in the reduction of the current account gap, is like a double-edged sword. On the one side, it relaxes the external constraint to growth, but on the other, it implies a reduction in the share of external savings, as a source of financing, to total national investment (its share in GDP is lowered from 3% to 1%). This in turn forces the economy to an important and significant effort in rising the share of domestic savings to GDP (from 21% to 17.5%), if the goal of achieving high growth rates (8% and 10%) is to be kept. In other words, domestic savings must grow significantly because of two main reasons: first to substitute external savings and secondly to guarantee a higher than historical growth rate for GDP (8% instead of 6%). That is the full meaning of the shift to the savings-investment gap.

Consequently, to take advantage from the oil foreign currency in a productive way, a challenge is met for the implementation of new economic policies in the 1980s, in the need to increase the savings share to GDP while it increases; i.e., to lower

the share of consumption to GDP. The "sacrifice" from present consumption in favour of future consumption has to come from private and public sectors as well. Nonetheless, the effort coming from the private sector will be as important as the public effort given the hardship of changing the consumist patterns that now prevail throughout the Mexican economy. In nominal terms, the effort from the private sector, according to the medium and high scenarios in our simulation model, will result in an increase of the private savings coefficient from 16.7% in 1979 to 19.1% and 17.9% respectively in 1985.

On the other hand, in the medium and high scenarios the public savings share to GDP must raise more than two-fold, from 4.4% in 1979 to 8.2 and 9.6 per cent in 1985, respectively.

However, as can be seen from table II.3, while PEMEX savings coefficient increases in the high scenario from 1.83% in 1979 to 4.18% in 1985 and also the share of Federal Government and Federal District savings to GDP increases from 4.43% to 9.22% in each year, these savings must be used to compensate the current deficit from the public enterprises sector -without PEMEX- that in 1985 will nearly be 4% of GDP.

In this context, the assumption that public enterprises will continue the low pricing policy for their goods and services means subsidizing the private sector. In consequence the PEs deficit originated by this policy would have to be financed by almost all of PEMEX savings. This in turn means that the oil sector will be supporting the whole public and private non-oil sectors.

The conclusion is self evident: if the government utilizes oil revenues to support other public enterprises' economic activities, other fields of interest would have to be left

out of its promotion policy. On the other hand, this policy would lead to inefficiencies in the resources allocation process because the goods and services provided by the public sector do not reflect their opportunity cost.

The magnitude of the effort on private and specially on public savings is well known. However, the key point is the capacity of the economy to absorb a dollar of oil exports. In other words, the amount and the speed at which the economy can transform a unit of foreign exchange from oil exports into a unit of domestic saving.

The question that arises is, what direction does the macroeconomic strategy should take? Specifically, what role should be played by the public enterprises?

III. TOWARDS A NEW MACROECONOMIC STRATEGY AND POLICY

As it could be concluded from the results of the simulation model, the oil revenues introduce an important qualitative change in the macroeconomic problems in the 1980s. The external disequilibrium or foreign exchange gap is no longer a barrier to growth, while the internal disequilibrium becomes the main constraint. A change takes place in the nature of the problems the economy faces: first, it was the balance of payments, and at present, inflation. Hence, it is necessary that public enterprises sector policies be reoriented in accordance with the nature of the new macroeconomic problems Mexico will confront during the 1980 decade.

A. The New Macroeconomic Strategy Under the Oil Perspective.

Hereafter, the new macroeconomic strategy will have to deal with three problems to productively assimilate oil revenues:

- a permanent increase in the historical growth rates from 6% to 8-10% annual average,

- increase the share of domestic savings in GDP from 21% to 27-28%,
- and finally, maintain the inflation rates under a 15% level. 5/ In the face of this threefold macroeconomic problems the traditional anti-inflationary policy of demand contraction (demand management) must adjust itself to the new conditions. The aggregate demand policy must be expansionist in order to guarantee sustained growth of a 8-10% of GDP. Nevertheless, it should also be selective to be able to guarantee the lowering of the consumption share to GDP as the aggregate demand rises; this will cause an increase in total domestic savings. Even so, this will not be enough to guarantee moderate rates of inflation.

The new anti-inflationary policy has to be mainly a supply policy (neostructuralist approach); this requires an economic policy that in the first place eliminates -with aid of public enterprises- the "bottlenecks" that restrain full utilization of the existing resources; secondly, this policy must increase the productive capacity through growth of public as well as private investment; and finally, it should allow imports that widen the capacity of domestic production, without restraining efficient import substitution or undergoing the financially limits of the balance of payments deficit. In other words, the supply-side anti-inflationary policy requires that a production promotion and a gradual and efficient opening to external trade policies be implemented.

As the results of our simulation model show, as oil production and exports targets are raised the opening of the economy grows. While the share of imports plus exports to GDP (opening index) is 24.2% in 1979, it rises to 24.5%, 26.1% and 28.8% in 1985, according to each scenario (see Table II.3). This is so because inflation is reduced in every one from 18.7% to 14% in 1985. That means that by the end to the first half of the decade the selective demand regulation policy

must succeed in reducing the consumption share to GDP from 76% in 1979 to nearly 70% in 1985, i.e. to increase savings from 24% to almost 30%.

The savings promotion policy will be of an utmost importance during the 1980s. In respect to the private sector the chief barrier to face is the traditional consumist pattern which the medium and high income groups exhibit. The main effort will correspond to the public sector in order to promote and generate savings, which is a twofold task that enlarges its scope in the economy.

It is within the selective-expanding-supply policy where the public enterprises will be of first importance. They have to favour the import substitution process for capital goods as well as regulate and conduct private investment by means of a public purchase program.

B. The Role of Public Enterprises in the New Macroeconomic Strategy

In the former two chapters it has been concluded that oil export revenues will relax or even eliminate the foreign exchange constraint as a barrier to growth. At the same time, the oil revenues will push up the historical annual average growth rate from 6 to 8-10 per cent. In this context the main constraint on growth will shift to the savings gap and high inflation. Therefore, it is necessary for a new macroeconomic strategy to determine the PEs' role in the development process.

The simulation model estimates indicated the capacity of PEMEX to increase its savings share to GDP from 1.8% to 3.5 and 4.2 per cent in the medium and high scenarios, respectively. However, if the low pricing policy for the rest of the PEs is preserved, the PEMEX's superavit will only

compensate the deficit in the rest of the public sector enterprises. In other words, during the "development under the oil perspective" in the 1980s, a risk exists that oil be used as a financial instrument instead of the traditional ones such as external debt or money creation. In consequence, the opportunity to create a new development pattern more equitable and just will be lost.

The empirical evidence shows that it is very difficult for the policy makers to be consistent in implementing the anti-inflationary policy along with adjustments in the public goods and services' prices. Both, the "once and for all" increase in prices or the "adjustable fixed prices policies" are very hard to implement, specially during long periods because of a larger size adjustment.

This is the reason why for long spans of time a fixed pricing policy is preferred.

The lack of government consistency between the anti-inflationary policy at the macroeconomic level and the need for price adjustments at the microeconomic level of public enterprises can be solved through a "crawling peg pricing policy".

The Mexican experience can be illustrative. From 1976 to 1980 PEMEX has maintained a fixed price for the gasoline that represented a subsidy of around 90,000 million pesos (4 billion dollars). The low domestic prices compared to international prices provoked that the former do not reflect the actual opportunity costs and consequently this "basic product" contributed to a great extent to inefficiencies in the allocation of resources.

The attempts to increase prices had been rejected not only because of the inflationary impact but also by the fear of arousing political unrest.

On the one hand, the government -in his role of market regulator and as a consumer defender- requires from the private capitalist sector to restrain the increase in prices. Then, after announcing the discovery of huge oil reserves (6,000 m. b. in 1976 to 50,000 in 1980) which add to the energy abundance in the country, decides to rise the PEMEX' prices in the domestic market (such increase that has been delayed since 1976 would have to be in the present moment of at least 100%). Public reaction would undoubtedly be of distress. That is why the government's public congruence sets limits to his margin of action.

On the other hand, the "crawling peg" pricing policy has been already implemented in another important PE Comisión Federal de Electricidad, that deals with the provision of electricity. In 1978 an average increase in prices of 1.5% monthly, during 24 months, was authorized. This increase provided additional revenues that represented 3.7 and 21.3 per cent during 1978 and 1979.

In this way price changes are smoothed to avoid the impact of an "once and for all" price change, and people are not conscious of price increases alleviating the political problem involved in this kind of decisions.

The new macroeconomic role of public enterprises in the 1980s should pay special attention to savings generation through this "crawling peg" pricing policy if oil is to be transformed in an instrument for a new development strategy in Mexico.

In addition, it is important to take into consideration the fiscal experience of the oil exporting countries of longer date. Recent studies have shown how in these countries the governments marginal propensity to spend oil

revenues may increase to more than one, up to the point of having current account deficits and accelerated inflation. As a matter of fact a group of 12 countries increased 8 times the government's expenditures in a period from 1972-1975. 6/ This is to be avoided in Mexico by means of an adequate economic planning, specifically with regard to subsidies and transferences.

C. Political Aspects of a New Macroeconomic Strategy

Our brief historical analysis in part I has showed how the state faces a trade-off in his attempts to adequate the public enterprises productive capacity to the needs of a dynamic economic structure. In the "stabilizing development" strategy, given the price stability as fundamental goal, the trade-off was between creation of productive capacity and external debt. During the "participatory development" strategy, given the objective of production and investment promotion, the trade-off was between financial capacity and inflation. Thus the problem had shifted from an economic to a political trade-off. Within the latter another political dilemma was posed: who would bear the burden of inflation? Even assuming the same inflationary impact for the alternatives of money creation and a change in the pricing policy for the PEs' goods and services, the first seems more attractive for the policy makers as it may pass without public notice in the short run, while a price increase produce social strains. But in the medium and long run the problem remains unsolved and recurrent, while the price change produce an efficient allocation of resources that improves the system performance.

In the present decade, with the perspective of oil revenues, the policy makers count on wider degrees of freedom; nevertheless, if these resources are to be used productively, a trade-off still remains. Having the objective of changing

the PEs' pricing policy once again a political dilemma appears. This is between the government's bargaining power to promote savings and restrain inflation and the social discomfort that would raise from abandonment of the private sector subsidizing policy.

As discussed earlier, an alternative solution could be the "crawling-peg" price policy.

Finally, it is worth noting that if this new pricing policy is not carried into effect we will risk transforming PEMEX savings into high levels of consumption that will hinder the future economic development of México.

NOTES

1. In the 1960-1970 period these enterprises had transferred 24,645 million pesos to the industrial sector through the "social price" policy, specially in such cases as electricity, railways and petroleum. See René Villarreal and Norma Rocío de, "Las Empresas Públicas en México", in Opciones de Política Económica Después de la Devaluación, Editorial Tecnos, México 1977, p. 107.
2. For a general equilibrium analysis it would be necessary to remove the caeteris paribus assumption in order to know the impact of a dollar increase in oil revenues.
3. It is based upon the econometric model by Fernando Clavijo and Octavio Gómez, entitled "Parámetros e Interdependencias en la Economía Mexicana. Un Análisis Económico". El Trimestre Económico, No. 182, Abril-Junio, México 1979.
4. In the High Scenario an equilibrium position in the current account balance is attained within two years (1981 and --- 1982), and a small surplus in only one (1983). This is due to the assumption that in this alternative the income elasticity of imports increases. Because a surplus is not pursued with the oil production and export increases, neither to maintain the historic growth rates at a 6%, but to increase the latter at an 8% level. Even though, it is clear that the external constraint is not completely relaxed.
5. In order to keep up international competitiveness, if a fixed exchange rate is maintained, and to protect income distribution from further deterioration.
6. David Morgan, "La Política Fiscal en Países Exportadores de Petróleo, 1972-78". Finanzas y Desarrollo. Dic. 1979 Edited by IMF/WB.

