

# DOES POLITICAL PARTY LEADERSHIP CHANGE ECONOMIC GROWTH AND UNEMPLOYMENT IN MEXICO?

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## Introduction

After being conquered and colonized by Spain in the 16<sup>th</sup> century, Mexico gained its independence from Spain on September 16, 1810. Tired of the unbalanced distribution of wealth and power, the Mexican citizens initiated the Mexican Revolution in 1910. The civil war lasted ten years and resulted in at least 2 million casualties. In 1934, Lázaro Cárdenas became the country's President beginning the leadership of the Revolutionary Party, which would maintain its hold on power for 66 years. World War II motivated the nation's development through the creations of roads, the building of factories, and the establishment of irrigation systems, as well as an increase in population. However, the distribution of wealth remained imbalanced and unfair; the poor people of Mexico are generally unable to improve their socio-economic status. The elections held in 2000 highlighted the first time since 1910 that an opposition candidate, Vicente Fox of the National Action Party, defeated the party in government, the Institutional Revolutionary Party. President Andres Manuel Lopez Obrador, is the Chief of State and Head of Government; he has been in power since December 1, 2018. This mark a change for the National generation movement party lead by President Lopez Obrador.

Located in North America, Mexico shares borders with Belize and the United States. It is made up of one federal district and 31 states. Considered the third-largest country in Latin America behind Brazil and Argentina, Mexico has one of the largest populations with more than 100 million people, making it the home with more Spanish speakers than any other nation in the world. The ethnic group compositions are 62% mestizo, 21% predominantly Amerindian, 7% Amerindian, and 10% other (mostly European).

Currently Mexico is considered the 11th largest economy in the world, with a GDP of approximately \$2.4 trillion in year 2020. Since 1994, Mexico's economy has become increasingly oriented toward manufacturing after they signed the North American Free Trade Agreement (NAFTA). A revised trade agreement, the United States – Mexico – Canada agreement, has been ratified by all three countries and is often referred to as NAFTA 2.0. Mexico is considered the US' second-largest export and third-largest partner of imports. The country has free trade agreements with over 40 countries, putting more than 90% of its trade under free trade agreements. The Economic Freedom Index for Mexico is 64.7, which sits in the moderately-free range.

## Abstract

Between 1934 and 2018, two parties held the office of the President of Mexico. The Office of the President was held by the Revolutionary Party from the December 1, 1934 election until November 30, 2000, and then again from December 1, 2012 through November 30, 2018. The National Action Party lead the Mexican government from December 1, 2000 through November 30, 2012. Since political party platforms differ, this paper examines whether the political affiliation of the President influenced the relationship between the real GDP growth rate and the change of the unemployment rate for Mexico. The study uses data from Quarter 1 1993 through Quarter 4 2018, collected from the Federal Reserve Economic Data (FRED) at the Federal Reserve Bank of St. Louis. The results show that despite different political party platforms, the long-run economic growth rate for Mexico was not significantly different for the two political party time periods. The long-run growth rate was 2.3%. The results also show a statistically significant negative relationship between the real GDP growth rate and the change of the unemployment rate for Mexico. A 1% increase of the unemployment rate leads to a 2.53% decrease of the growth rate. The relationship was not significantly different for the two political party time periods.



## Results

Table 1 reports the results of the Okun's Law Model regression.

- $a_1 = 0.568$  and is statistically significant. The long-run quarterly growth is 0.568%, which equates to an annual growth rate of 2.27%.
- $a_2$  is not significantly different from 0. This indicates that the long-run economic growth rate is not significantly different under the two political parties.
- $c_1 = -2.53$  and is statistically significant. The results suggest a 1% increase of the unemployment rate leads to a 2.53% decrease of the growth rate.
- $c_2 =$  is not significant different from 0. The relationship was not significantly different for the two political party time periods.

**Table 1**

	Coefficients	Standard Error	t Stat	P-value
Long-Run Growth rate for qtr (AKA a)	0.56825	0.14252	3.98722	0.00013
Dummy National Action Party	0.04914	0.21442	0.22917	0.81920
Change UR	-2.53009	0.42518	-5.95065	3.79628E-08
Dummy NAP*Change UR	-0.04958	0.83641	-0.05928	0.95285

## Research Questions & Methodology

Using a modified Okun's Law model, this study examines whether the political affiliation of the President influenced the relationship between the real GDP growth rate and the change of the unemployment rate for Mexico. The modified Okun's Law Model estimated is

$$\frac{\Delta Y}{Y} = a_1 + a_2 * D_1 + c_1 \Delta u + c_2 \Delta u * D_1 + \epsilon$$

where  $\frac{\Delta Y}{Y}$  is the quarterly economic growth rate,  $a_1$  is the long-run quarterly growth rate,  $a_2 * D_1$  is the change in the long-run quarterly growth rate once the National Action Party was elected,  $c_1 \Delta u$  is the influence a 1% change of the unemployment rate has on economic growth rate,  $c_2 \Delta u * D_1$  is the change of the influence a 1% change of the unemployment rate has on economic growth once the National Action Party was elected, and  $\epsilon$  is the error term.

**Question 1:** Did the election of the National Action Party significantly change Mexico's long-run economic growth rate?

Null Hypothesis:  $a_2 = 0$

Alternative Hypothesis:  $a_2 \neq 0$

**Question 2:** Did the election of the National Action Party significantly change the influence a 1% change of the unemployment rate has on Mexico's economic growth?

Null Hypothesis:  $c_2 = 0$

Alternative Hypothesis:  $c_2 \neq 0$

## Conclusion

Our results show that the changes of political parties in Mexico's history did not impact the long-run economic growth rate for Mexico and did not change the short-run relationship between GDP growth rate and the unemployment rate. In both cases, our results fail to reject the null hypothesis, since the p-values are greater than 0.05. The long-run growth rate for Mexico and the short-run relationship between the unemployment rate change and economic growth are based on factors unrelated to the political party in power.