

MEXICO BRIEFING PAPER

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Abstract

A rapidly deteriorating Mexico is, by some reckonings, already close to being a lawless “failed state.” Large geographical areas under control of the drug cartels are at growing risk of being made available to hostile interests for use as terrorist bases and staging areas. This and the “immigration issue” present as perilous clear and present dangers to U.S. national security and, ultimately, to our overall political/social/economic well-being as any other place in the world. Left ignored---our apparent current policy---the situation can only worsen. Adoption by the U.S. of 3 relatively simple, inexpensive policies would help alleviate Mexico’s 2 biggest problems---too few jobs; too much crime. Benefits to Mexico would be incalculable; to the U.S. more so.

Background

Mexico is the 5th largest country in the Americas by total area, the 15th largest in the world and, with a current population of just over 110 million, the world’s 11th most populous. It has a 1,900 mile border with the United States to the north, 725 miles of border with Guatemala and Belize to the southeast, and about 5,600 miles of coastline. By comparison, the continental U.S. has about 5,000 miles of coastline.

Mexico is the only Latin American member of the prestigious 31 country “Organization for Economic Co-operation and Development” (OECD), the current Secretary General of which is José Gurría, a Mexican economist and diplomat. Per the IMF, Mexico has the world’s 13th largest nominal GDP, the 11th largest *GDP by purchasing power parity* (used by the World Bank to figure actual GDP vs. GDP based on nominal currency exchange rates), and its \$14,500 per capita GDP is the highest in Latin America. Its economy is strongly linked to the economies of the U.S. and Canada, its North American Free Trade Agreement (NAFTA) partners.

Income distribution, however, is extremely uneven---the richest man in the world is reported to be Carlos Slim, a Mexican, and the richest 9% of Mexicans garner just over 40% of all income, while the poorest 40% receive just under 15%. At least those are the officially reported numbers, but government-compiled statistics throughout Latin America tend to be not only notoriously unreliable to begin with, but, prior to publication, are creatively spun to put the government and its supporters in the best light possible---not unlike many other places. Moreover, it is estimated (no one really knows) that no less than 40% of the Mexican economy is transacted entirely “off the record” and therefore beyond the reach of government statisticians altogether.

Since WWII, approximately 20 million Mexicans have left Mexico permanently seeking work and opportunities that are simply non-existent in their own country. That over the last two generations 1 in every 5 Mexicans have felt compelled to leave their homes, language, culture,

customs, food, way of life, and especially their families, because local conditions are so appalling is, by any measure, a damning indictment of Mexico's leadership---private and public sectors alike. The INS estimates about 12 million Mexicans currently live illegally in the U.S. People of "Latino" or "Hispanic" ethnicity (the majority of whom, but by no means all, are Mexican) currently comprise about 12.5% of the total U.S. population, or just under 39 million.

Mexico's main income sources are oil, tourism and remittances from Mexicans working abroad. Revenues from all three are currently down anywhere from 40 to 65% from a few years ago, as is foreign investment, resulting in the national economy spiraling into serious depression. Unemployment now exceeds 25%---the U.S. rate during the worst of the Great Depression.

Yet new job creation is at a standstill....and always has been. In any economy, the vast majority of new jobs, particularly good ones with upwardly mobile opportunities, are created NOT by large companies, but by small to medium sized firms thriving in an entrepreneurial environment. Nonetheless, in spite of the critical need for new jobs, and all the official rhetoric, the government makes formation of even the simplest business entity an extraordinarily difficult, complicated, expensive, time-consuming task. The cost of starting a new company in Mexico is 20 to 60 times what it is in the U.S. and takes months to do, vs. the day or two it takes here. Then, day-to-day operations are subject to intense control, regulation, harassment, and outright government shakedowns (read: *mordidas*). The loud and clear message to Mexicans seeking no more than a chance to engage their own creative entrepreneurial energies is: ANot here!@...thereby driving them to move to a place where they are allowed---encouraged, even---to make something happen for themselves. Changing these absurdly counterproductive rules requires only that the government do less, not more; that it spend less, not more. Yet not a single step has been taken toward accomplishing this most elementary goal in decades. It is clear that the Mexican power structure---public and private sector alike---has no intent to permit, let alone create, a more hospitable economic environment for its people. Among other things, this means the Aimmigration issue@ will continue to plague all concerned for years to come.

During a recent ABC interview, Mexico's President, Felipe Calderon, said, "In the future, I can't imagine a Mexico without enough economic growth to provide for them. I want to build the conditions in Mexico to provide the opportunities here." To say that his actions, and the actions of his predecessors going back 150 years, belie their words is an understatement in the extreme.

On the other hand, crime is thriving. Cartels running the drug trade, besides supplying the insatiable demands of tens of millions of users in the U.S., Mexico, and elsewhere, have been responsible for over 23,000 [fortunately, largely internecine] homicides during the last 3 years alone. Trafficking in human beings (aka modern slavery) and human organs has reached almost inconceivable highs---worldwide revenues from human trafficking now exceed worldwide revenues from the drug trade! In 2009 in Mexico City alone there were 5,000+ kidnappings, strictly for money. Armed robberies occur throughout the country with such frequency that

heavily armed guards are stationed at every bank and at all major office buildings, factories, government offices, restaurants, hotels. A vast, hugely profitable, rapidly growing pornography industry flourishes selling its wares worldwide with impunity. Petty (and not so petty theft) is endemic, as is rampant corruption at every level of government. But it doesn't end there. Most new construction and new businesses (what little occur) are funded by criminal enterprises...as often as not because that's the only source of funding available. That, or corrupt politicians.

All this is reported daily and at length in the Mexican media (yes, freedom of the press still exists there, but is on the wane), but very little is reported in the U.S... In my experience (as a bilingual business lawyer whose cross-border clientele include U.S. and Mexican companies), crime has become the primary subject of conversation throughout Mexico. In short, criminal enterprises permeate the national consciousness, and have taken over wide swaths of the country physically, whole departments of government, and much of [even] legitimate business. Indeed, a criminal mentality is beginning to take root with people from all walks of life, largely because they are surrounded by it at every turn and see no way to survive without partaking themselves. A year ago I listened to an interview with a senior FBI official who stated that, at that time, the biggest single criminal problem in the U.S. was spillover from the Mexican drug cartels and gangs. The situation can only have deteriorated further in the intervening twelve months.

If terrorists based in Afghanistan across an ocean and 9,000 miles from the nearest U.S. border are a clear and present danger to our national security, what about terrorists based in an utterly lawless, failed state just across a 1,900 mile border so porous that a million immigrants cross over every year with no more preparation than bottles of water and the shirts on their backs?

A final phenomenon evidencing Mexico's instability is that, routinely, demonstrations involving thousands of people march through the streets of Mexico City to protest the seemingly endless predations and injustices of "the system." All of Mexico's wars of "independence" and revolutions notwithstanding, the system, that is, the Mexican oligarchy, a tiny cabal of absurdly wealthy families, working hand-in-glove with the government *du jour*, has in fact controlled and run Mexico for centuries. During that entire time, this group has successfully resisted any change that might enable millions of their countrymen to escape serfdom and thereby possibly disturb the nicely feathered nests of the self-styled "elite."

Attributes Characterizing a "Failed State"

In examining various sources from around the world, it is apparent that many definitions of a failed state exist, but the following attributes are typically present in all cases:

- Loss of physical control of significant portions of its territory and/or loss of monopoly on the legitimate use of physical force
- Endemic corruption and profiteering by ruling elites and resistance to transparency,

accountability and political representation; widespread loss of popular confidence in state institutions and processes

- Inability to provide reasonable public services (e.g.: law enforcement, clean water)
- Unable to enforce laws due to high crime rates, extreme political corruption, extensive informal markets, impenetrable bureaucracy, judicial ineffectiveness
- Large movements of refugees seeking relief from violence, lack of economic opportunity, and lack of basic life-sustaining resources leading to major humanitarian and security problems---within and between countries

By such criteria, Mexico certainly appears to be going down any number of very dangerous paths, both for itself and for its neighbors, especially the U.S.

Suggested U.S. Courses of Action

1. **DECRIMINALIZE MARIJUANA.** For the sake of our own citizens (who favor decriminalization by 56%), for the sake of Mexicans surviving as a viable people, for the sake of us surviving along with them, let's move beyond the hysterical demonization of a substance that tens of millions of Americans have used on a more or less regular basis for three generations with few if any seriously detrimental effects. Indeed, whatever negative personal and/or societal effects it has had are a miniscule fraction of those caused by alcohol, tobacco, prescription drugs (over half of which are now used for "off-label" purposes), and the most addictive, mind/body-numbing drug of all, TV. The U.S. spends \$145 million daily (about \$53 billion a year, not including incarceration costs) fighting this misguided, endless, ever more futile "war." And all it has to show for such herculean efforts are (i) more citizens in jail than any other country in the world (not per capita, more period; indeed, more than India and China combined, with eight times our population); and (ii) the creation and on-going nurturing of an international criminal underclass far larger, more powerful, more ruthless, and more fundamentally destabilizing to society at large than the prohibition-created Mafia has ever come close to being.

Making marijuana legal (and taxed like alcohol and tobacco) would overnight (i) save billions on enforcement; (ii) save billions more on pointless and embittering incarceration costs; and (iii) generate billions in tax revenues---all-in-all, enormous net gains for government and citizenry alike. As importantly, and directly germane to this paper, it would decimate the drug cartels' cash flow, thereby decimating their power. As long as marijuana remains illegal, but demand continues unabated and insatiable, and therefore the source of vast sums of cash, all the police actions in the world are not going to make it go away. As long as the drug cartels have that kind of cash flow, and therefore that kind of power, they will continue to wreak their inexorable havoc---on both sides of the border.

2. **PRESSURE MEXICO TO MAKE BUSINESS EASIER/FASTER/LESS EXPENSIVE.** The U.S., if so inclined, has at its disposal any number of powerful political/social/economic/diplomatic tools---

carrots and sticks alike---to “encourage” Mexico to make certain policy changes, especially if such changes can achieve major benefits for all concerned at minimal or zero cost. Eliminating pointless barriers to business, and especially to small start-up businesses, is a change that, far from costing anything, would save the government billions of dollars per year. The government is currently so pressed for money that it is cutting over 10,000 jobs in the Department of Tourism alone. There could be no better time to bring pressure to bear to extend these budget cuts to the maze of bureaucracies that are no more than obstructionist, bribe-generating sinkholes in order to breathe life into the sector of the economy most capable of creating economic growth and jobs. In time, many of those bureaucrats might even find productive work in the private sector. With the government’s rhetoric running hot and heavy regarding economic stimulation and the need for jobs, this is an opportune time get them to walk their talk.

3. ASSIST WITH DEMOCRATIZATION OF CAPITAL. It is not enough to be able to start and operate a business quickly, inexpensively and free from obstructionist government interference. If capital is unavailable, or available only at ruinous interest rates, then “economic democracy” is an illusion. Mexican banks loan money only at such high interest rates (25-35%) that business loans are not feasible. The only other sources of funding are the cartels which, needless to say, present borrowers with another whole subset of problems. At a time when the U.S. is spending a billion dollars per day to fight terrorism in the Middle East, allocating just that much per year to help fund, say, 50,000 Mexican entrepreneurs and small to medium sized businessmen, at an average of \$20,000 each, would seem a small price to pay to help make Mexico a vastly more stable neighbor than it is today, and one with a much diminished need to send workers north. Loans at, say, 3-4%, could be made and administered through Mexican subsidiaries of U.S. banks (e.g.: CitiCorp). To qualify for loans, borrowers should be required to take and pass classes in basic finance, accounting, inventory control, management, marketing, export logistics and the like. Many loans may, of course, never be repaid, but even if only one of three is, and these contribute to establishing sustainable businesses, with well-paid, well incentivized employees, the indirect return on such an investment may prove to be the best foreign aid and anti terrorism money the U.S. has ever spent.

Conclusion

Depriving the cartels of much of their cash flow, and therefore their power to perpetuate their criminal enterprises, while at the same time significantly boosting Mexico’s home-grown economy by facilitating business formation, funding, operation, growth, and job creation, will bail out a country, a government and a people whose current very significant woes are as dire a threat to them as to their neighbors to the north. The greatest danger of continuing to do nothing is that, besides facilitating terrorism, more and more, Mexican immigrants bring with them, then cling to for generations, precisely the culture that created the profoundly dysfunctional country they paid so dearly to escape. If enough of them do that for long enough, they will eventually drag down the place to which they have come to the level of the place they have left.