

Mexico, a nation of contrasts

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Mexico is a nation of contrasts. A nation constructing its future while struggling with its past. A nation that has advanced in nearly every realm while becoming more democratic and more open.

Thirty years ago Mexico was confronting the consequences of demagogic populism; a closed and, in many sectors, state-dominated economy; and an often harsh, semi-authoritarian political system. Extraordinarily high levels of public debt had brought about a major recession: the government's deficit reached 18% of the GDP in 1982 and the economy contracted by almost 8% in 1983. Prices went wild and we had a close encounter with hyperinflation that fortunately did not materialize. Mexico then appeared to be hopelessly trapped in a tyrannical 19<sup>th</sup> century backwater. I remember thinking then that Mexico seemed to be like Japan in 1945, except that no one felt defeated.

But Mexico did rise to the challenge. Little by little, things began to change, albeit not without crises and costs. First, the public purse was brought under control. Expenditures were reduced by more than 15% of the GDP; then imports were liberalized and some government-owned corporations were privatized. Bureaucratic regulations were eliminated or, in many cases, revamped.

These reforms, though insufficient, showed that a different way was possible. But they did not bring about economic growth or financial peace. Mexicans underwent severe financial crises that suddenly impoverished them. Major devaluations provoked immediate price rises that destroyed the stability of families and increased their sustainability costs. The last of these crises, in 1995, was so costly that the majority of politicians and political parties came to realize, and finally, accept, that a strategy entailing deficit financing and high debt was simply the wrong way to go, at least for Mexico. It was an important lesson that has helped pull Mexico through during the past

few years. The financial stability that ensued has transformed the country in ways that no one imagined at the time.

On the political front, the political system that had been built by the victors of the 1910 Revolution was exploding at the seams. Although it had provided peace and stability for decades during which the economy had grown at more than 7% on average, the system had ceased to be perceived as legitimate. The 1968 Student Movement –not altogether different from that of other nations- had been crushed, creating a rift between the society and the ruling party. Opposition parties were growing but had no means of reaching the citizenry or of attracting voters. The old system, described by Daniel Cosío Villegas as a “non-hereditary six year monarchy”, was no longer capable of maintaining stability or fostering economic growth.

In his book *Distant Neighbors*, Alan Riding wrote about the enigmatic parlance of Mexican politicians of the time. He explained that the language of the annual presidential address to the nation was florid and sumptuous, but that its most important feature was that it was incomprehensible to the majority of Mexicans. It was, he argued, a carefully crafted piece of oratory meant to convey messages to specific political groups. The point is that politics was restricted to a limited number of actors who played by so-called “unwritten rules of the game” in which discipline and respect for the incumbent were paramount.

Reforms in the political sphere came about much more slowly than in the economy, but they nonetheless advanced. First, opposition political parties were incorporated as full-fledged actors into the political process. Second, the electoral rules were reformed, to the point where the old, corrupt system was totally transformed. The system remains far from perfect, representative, or democratic, but today there is frequent alternation of parties at all levels of government, much greater transparency and even a modicum of accountability.

Many of the old problems and issues that plagued Mexico's economy and system of governance are gone. In fact, over the past two decades Mexico has gone from a backward-looking economy to a modern, or fundamentally modern, economic structure and from an authoritarian political structure to an incipient democratic polity. These changes have been cataclysmic and the results are not all good, but it is a new reality that has rendered some extraordinary results.

I would like to start by arguing that Mexico's problems today, although they might appear overwhelming if one regards the media, are not intractable. They are also very different from those of the past.

I began by saying that Mexico is a nation of contrasts. Another way of saying the same thing is that, in fact, there is no one Mexico, but many.

There is a modern Mexico and a Mexico lagging behind. A middle class Mexico and a very violent Mexico. A Mexico living in today's world, and a Mexico abiding in a different time zone. In fact, many time zones.

Octavio Paz, that exceptional man of culture, could not have said it better:

"The Mexican, whether young or old, *criollo* or *mestizo*, general or laborer or lawyer, seems to me to be a person who shuts himself away to protect himself: his face is a mask and so is his smile. In his harsh solitude, which is both barbed and courteous, everything serves him as a defense: silence and words, politeness and disdain, irony and resignation. He builds a wall of indifference and remoteness between reality and himself, a wall that is no less impenetrable for being invisible. The Mexican is always remote, from the world and from other people. And also from himself."

Mexicans, Paz argued, "do not express our nature or resolve our conflicts: they are forms that we have neither created nor suffered, they are mere masks". The same principle applies to the way the country has evolved over the past several decades:

many Mexico's hidden behind a façade. The façade changes, but the contrasts and complexities endure.

Three things have occurred over the past four or five decades: first, Mexico changed economic course in a pretty radical way. Second, it commenced a complex journey from its authoritarian past to a modern polity. And, third, it found itself confronted with modern evils for which it was ill prepared, particularly organized crime.

What's extraordinary about Mexicans is their ability to adapt and develop despite the environment in which they live. The joke, a painful one at that, goes that had Kafka been Mexican he would have been writing about everyday life. And yet, Mexico has succeeded in reaching a decent level of per capita income but, most importantly, it has been able to lift some forty million people out of poverty over the past fifty years. Sure, the half-full glass proponents would note that about 40% of the people remain in poverty, but the extraordinary tale is that nearly 60% are no longer poor.

Although it would be impossible to argue that Mexico is a developed country, many things have changed, delivering up a complex nation, one that strives for a breath of fresh air. And Mexico is clearly moving in that direction. When Mexicans espy the future they are aghast at the challenges ahead. However, when they look over their shoulder at the recent past, what's extraordinary is the pace of the change, the transformation that the country has already experienced.

Many iconic elements of the past remain the stalwart bastion of the nation, as well they might. The culture that we inherited from the Aztecs and the Mayans, the Olmecs and the colonial times endowed the country with unspeakable wealth. Other components of that legacy, less commendable, have fortunately begun to wither away. The transformation is real. The challenges equally so.

Independent of other factors, there are a few tangible aspects that are new in Mexico today. First and foremost is the freedom that one breathes, that is palpable. Although Mexico's *old regime* was not as harsh as others, it did impose a party line, developed a tradition of the personality cult, and espoused well established truths that were intended to be taken as facts. Orwellian-like facts, but political facts nonetheless. The freedom

that Mexicans enjoy at present is overpowering. Few things compare to it, particularly for those who knew the alternative. Second is the availability of goods from all over. Some may have fondness for imported *foie gras* or caviar, but what really matters is the competition that imported goods, spare parts and components, have injected into the economy. Mexican producers are now able to compete with the best because they exist in a global arena. Previously, they were hindered from competing simply because not all parts that went into a finished product were equally good.

In the past two decades, when chatting with my children, I was often confronted with the odd need to digress in order to make them realize that their parents and grandparents could not take for granted many of the things that they did. Being an integral part of the Western world does not, and, indeed, has not, solved all of the problems, but it certainly creates an environment in which addressing them is at least feasible.

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I would like to dwell on these many Mexicos in an attempt to convey to you both the changes and the contrasts. What has moved and what remains.

Modern Mexico is something new. Although, as in any nation, there have always been people in the country that are as modern as anywhere else, today we have not only modern individuals, but a modern economy that is thriving.

In his book on *Mexican Modernity*, Rubén Gallo tells the story of a second Mexican Revolution, a battle fought on the front of cultural representation. The new revolutionaries were not rebels or outlaws but artists and writers; their weapons were cameras, typewriters, radios, and other technological artifacts, and their goal was not to topple a dictator but to dethrone 19<sup>th</sup>-century aesthetics. Gallo tells the story of this other revolution by focusing on five artifacts that left a deep mark on the literature and the arts of the 1920s and 1930s: the camera and its novel techniques for seeing the modern world; the typewriter and its mechanization of literary aesthetics; radio and poetic experiments with wireless communication; concrete architecture; and its celebration of functional internationalism; and the stadium and its deployment as a mass medium for political spectacle.

Today's modernity possesses an extraordinary cultural component. Mexican artists and writers are popping up everywhere, their work earning recognition and receiving awards the world over. But that kind of Mexico has always existed. The new modernity can be observed in entire swaths and regions of Mexico that are now dominated by modern factories and productive workers earning relatively high salaries, certainly much higher than average. Mexico's automobile, auto-parts, electronics, chemical and aviation industries are not only prospering, but have become critical elements in the most sophisticated chains of production worldwide. Mexican, American, Japanese, and European companies see Mexico as a key link in their production chains. The productivity of many of Mexico's automobile plants is higher than that of their sister plants in Japan and Detroit. Modern Mexico is at present the main source of demand for the economy, its foremost growth engine. Last year Mexico's economy grew 5.5% and this year it promises to be just below 5%. Modern Mexico has arrived.

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During colonial times and in Mexico's early years as an independent nation, several writers, particularly Alexander Von Humboldt and Madame Calderón de la Barca (a Scottish woman born Frances Erskine Inglis), visited Mexico and wrote letters and books that created a sense of the place as a land of opportunity, a veritable cornucopia. They all described the enormous natural beauty and wealth of the new found country.

Mexicans have forever jested that God, in his infinite wisdom, needed to balance that wealth and that is why she led many Mexicans astray. Indeed, just as there is an imposing modern nation, there is a lagging Mexico that drags down the progress of the economy. This is not a Mexico opposed to modernity; it is simply a Mexico that would rather not be bothered to move or change. Part of this is caused by history and culture, part of it is simply the result of self-interest.

Octavio Paz has endless stories about the clash of these two Mexicos, but a more prosaic tale is that of a retired hedge fund manager living on one of many of the country's peaceful, natural beaches. After spending several days just resting, the banker

observed how the fishermen would go out in the morning and then, upon their return with a few fish, lay back in their hammocks all afternoon. He initiated a conversation with one of them and proposed to him the creation of a company to develop big fisheries, then to place the company on the stock market and make the fisherman and all of his cohorts rich. The fisherman kept asking just one question: what for? Well, the banker insisted, you'll become very productive, then make a lot of money, and then retire and be able to spend all the afternoon in a hammock. The fisherman was not impressed. "That's what I already do" he retorted. There is something to be said for this fisherman. And for that other side of Mexico that has straggled behind or refused to join the wave of modernity and its accelerated nature.

These are two different Mexicos that cannot be confused. One represents a long-observed custom that privileges culture, tradition, and control over modernity. No wonder many enthusiasts of the so-called "slow food" movement are Mexicans. The other, a backward economy that is dragging the country down and holds it back from creating jobs and opportunities for the majority of Mexicans whose only demand is to be given a chance. They are not the same and need to be understood on their own terms.

Let me start with the second. The old, lagging Mexico is dragging down not only the economy but the society as well. The ultimate cause of the breakup of the two sectors of the economy -one lagging, one modern- has to do with the economic policy of the past three or four decades and lies at the root of today's complexity.

When the economy began to be liberalized and deregulated in the mid-1980's, it was done in Mexican, rather than Thatcher-like, fashion. I don't know whether this is good or bad, but the results were very different. Liberalization in Mexico, both economic as well as political, was carried out with the keen objective of not altering the status quo. This, I trust you will surmise, is quite awkward. For fifty years, Mexico pursued a policy of industrialization by substitution of imports within a political system that was authoritarian albeit not particularly repressive. The government was strong and ran a tight ship over both the economy and the political process.

Liberalization in both the political arena and the economy occurred not only because of the poorly performing, highly indebted economy, but also because there were no prospects for a better future in the absence of major reforms. In the political arena, the government did as little as possible to create some breathing room, but not more. For example, it reformed the electoral law to allow for left wing parties to become part of the political process under the principle that it is better to incorporate them rather than have them bickering or challenging from the outside. Jesús Reyes-Heróles, one of the modern intellectuals of the old PRI system, argued that “all who resist are in favor”, hence the decision to open a few escape valves for the right and left opposition to keep them busy inside the system.

The rationale for the economic reforms was very different. The idea was to modernize the economy by forcing it to compete. However, the true objective was to advance the economic reform as much as possible without endangering the monopoly of power that the PRI had enjoyed since the end of the 1910 Revolution. The mixed objectives were an ominous early-warning sign of what would happen later. The reforms went ahead but were not generalized and created odd side-effects. For example, while the importation of goods was almost universally deregulated, services were not. Hence, for example, a Mexican company would have to compete with imported products while enjoying the privilege of paying outrageous prices for energy, telecommunications, and bank credit.

At the end of the day, the incoherent and even contradictory nature of the objectives being pursued in time led to the collapse of the economy, which created the conditions that eventually led to the PRI's defeat in their bid for the presidency in 2000. However, the basic structure of the economy has remained the same: to wit, some sectors are open, others are not. Companies that faced competition from the very first day (as took place in the case of microwave ovens or electronics) were required to transform themselves overnight or face certain death. Many of today's giants in the modern economy were born under those circumstances.

But several companies did not face headwind competition and thus never realized that they needed to adjust. Imagine this real-life example of a company that manufactured pencils and other office products that did not change much over time. This company

continued producing what it always had and in the same fashion, even as competitors grew in the marketplace little by little. No wonder it has lost 10%-15% of its sales every year. If you do the math, there will not be much left after twenty years except an impoverished business. An even more pathetic example is that of a manufacturer of springs for carburetors who continued to produce what it had done and so well for so long that the market simply vanished. This is the old Mexico which attempts to hold fast to a world that is long-gone but that nevertheless remains politically alive and powerful. Endless battles over tariffs, import permits, free trade agreements, and further deregulation are all related to a dying segment of the industrial economy that, unfortunately, still employs a huge number of people who are caught between the incompetence of these entrepreneurs and technological change.

Formally, the Mexican economy operates under the paradigm of a market economy. The old paradigm of protectionism has long disappeared from the law and from the reality of the majority of consumers. It does, however, survive in the minds of many bureaucrats who dream of regaining control over the economy and, of course, of benefits for themselves. It is also alive and well in the minds of entrepreneurs who refuse to adjust or who have failed to understand the nature of the forces against which they are struggling. Deep at heart, however, the demand for protection from imports and for subsidies, as well as ideological support for those claims, persists for one reason and one reason only: because they can, because it pays off. The rules are there but not everyone complies with them. Why? Because there are so many exceptions that anyone can attempt to hide behind them. More important, it often works.

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An old adage claims that the Stone Age did not end due to the lack of stones. The same is true of the old Mexico, which lives in a different time zone. This is where the old and the new collide, where tradition and modernity produce extraordinary levels of political conflict as evidenced in the 2006 election. Mexico's history goes back more than three millennia, most of it comprising a world of indigenous people with a culture of its own and traditions that represent a cosmogony that flourished until the arrival of the

Spaniards at the end of the 15th century. Much of Mexico's resistance to change would appear to stem from this history and its culture. But appearances are often deceiving.

Interestingly enough, many of Mexico's most modern citizens are indigenous. One would be hard pressed not to realize that something else is going on here. Simply by observing the way Mexicans live, move and very often succeed in the U.S. economy, into which they entered as illegal migrants, offers a different perspective. I'm talking about some of Mexico's poorest people who have nonetheless moved away from the lands –and often enough the traditions- of their ancestors. One need go no further than New York or Chicago, where some five to six million Mexicans live, to see how some of the most successful migrants are originally from the states such as Oaxaca or Chiapas, the poorest in Mexico, and have not a drop of Spanish blood in their veins. They are more modern and more adaptable than any Mexican. The Stone Age ended because, through ingenuity and innovation, humans found better ways to survive than depending on stones alone. Same is true for these indigenous Mexicans.

The old Mexico is, rather, a political phenomenon. About fifteen years ago, in its attempt to raise productivity, the government decided to adopt Daylight Savings Time as a policy to save energy. Although seemingly a technical decision, it nevertheless opened Pandora's box. Roger Bartra, a Mexican intellectual, argued that Mexican political parties live in different time zones and cannot communicate, even on issues as trivial as this particular one. Of course, the issue was not Daylight Savings. The issue was all about whether Mexicans can or should change, whether they should join the modern world or remain a rather isolated polity. Those in favor of maintaining long-held traditions cling to culture or, rather, employ cultural arguments, to advance their political perspective.

Observing how some of Mexico's poorest peasants and indigenous people have thrived in the U.S. has taught me a great lesson. Norms, traditions and social mores, the majority of which are not codified in any statute, have maintained a status quo that is not compatible with the aspirations of Mexicans. The utilization of these norms and cultural traditions to preserve an established order is extremely convenient for some political interests, but I find it largely devoid of content or support. One only needs to

note how adaptable the poorest Mexicans usually are to witness the paternalistic nature of these claims.

A few years ago, Carlos Slim, who needs no introduction, invited Antonio Villaraigosa, the mayor of Los Angeles, to honor him for having been elected. Villaraigosa, a the son of Mexican migrants, is probably the most successful Mexican in the politics in the U.S. Slim started the conversation before a hundred guests by asking the mayor what differences he saw between the US and Mexico. Villaraigosa wasted no time. He explained that his very poor parents had emigrated to the U.S. and how, despite his humble origins, he had been able to go to school, become a lawyer, then majority leader and speaker of the California congress and now mayor of the second largest U.S. city. Then he said that had his parents stayed in Mexico he would have been one of the many waiters serving dinner. The gathering ended right then and there.

The relevance of this anecdote is that it shows how different Mexico would be if it possessed as much social mobility as there is in other nations. It was, in fact, an indictment of the Mexican social structure. More important, it defrocked many of those desirous of preserving the status quo for what they are.

Having said this, there are people with a different world perspective. When comparing Mexicans and Americans, Octavio Paz argued that “To cross the border between the two countries is to change civilizations. Americans are the children of the Reformation, and their origins are those of the modern world; we Mexicans are the children of the Spanish empire, the champion of the Counter-Reformation, a movement that opposed the new modernity and failed. The history of Mexico since the end of the 18th century has been that of the struggle for modernization. It is a struggle that has frequently been tragic and often fruitless. To ignore this is to ignore what is Mexico today, with its economic vicissitudes and the continuous zigzag of its political system”.

So, indeed, the old Mexico is a construct that serves for special interests to maintain their privileges, but it is also a culture that has profound historical roots. It is impossible to tell how significant each of these is in numbers, for the former exploit the latter to serve their interests. Writing upon the fall of the Berlin Wall, Enrique Krauze, a historian,

argued that “the last Stalinist on the planet will die not in the Soviet Union, but on the campus of some Latin American university”.

There is hardly a question that there is an unholy alliance between the Latin American intellectual clerisy, as Krauze calls it, and the populist politicians.

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Violent Mexico is not a new phenomenon, even though its recent version is particularly disturbing and often barbaric. There has always been a sub stratum of violence that goes back centuries. Mexicans call this the "rough and tough Mexico" or "México bronco". Many anthropological studies have attempted to explain the origin of this phenomenon as well as its nature. Old rivalries among indigenous communities, harsh realities in distant lands, all of these describe the nature of this, ancient trait. What is certain is that this kind of violence was rather small and sporadic in nature.

Today's violence is an altogether different phenomenon. It is related to organized crime, drugs, and enterprises that resort to violence as a tool of their trade. Today's violence is brutal, ever more driven by the urge to exploit the media as a vehicle for making political statements and, at least in some sense, many of its forms were certainly borrowed from the Middle East via the Internet. This is criminal violence that stems from the convergence of several factors: a very profitable business; the attempt by some mafias to expand their territory at the expense of their competitors; the decision of the federal government to attempt to impose some order; and the political environment in the country, which provides incentives for the president's political opponents to exploit any and every critical situation.

The fact that there is violence says a great deal about the most fundamental challenges that Mexico faces today. First and foremost, the country does not have the institutional structure to maintain security, to process criminals, and to enforce the law. In fact, the whole reason that the current administration launched a strategy to contain the drug mafias was precisely because there was a risk that the entire government would be overwhelmed by them. It is possible that the strategy needs (or needed) adjusting, but the rationale for the initial thrust can hardly be ignored. Second, the nature of today's

organized criminals is far different from anything in the past. These are not members of traditional communities defending their turf, but extremely well-organized and armed bands of criminals operating in an exceedingly profitable market. Third, the fact that these gangs have learned to employ violence as a political tool is perfect proof that Mexico has yet to institutionalize its politics. The very fact that such levels of violence exist, that they affect and impact all Mexicans in ever more gruesome ways, and that they are not condemned by all political actors in an absolute, unquestionable and uncompromising way, is more than clear evidence that Mexico has yet to accomplish the essential first step of any democratic society: the agreement of all political actors to abide by a social compact and to commit to institutional politics without exception.

My perception is that the violence will begin to decline when the following happen: first, when the government -all three levels: federal, state, and local- succeeds in gaining sufficient strength to impose rules on the mafias; second, when local governments begin to build a credible, modern, well trained police force to maintain order in every city and town; and, third, when national politicians advance toward an agreement on the bare basics of power: how to wield it; how to legitimize whoever wins; and how to share the spoils. In other words, Mexico has, in a sense, to re-found itself. This is the equivalent of Thomas Hobbes describing the challenges of lawlessness and John Locke and Rousseau arguing for a social contract.

Despite the extremely tall order, there are many good reasons to believe that there will be an extraordinary opportunity to advance in this quest in the next administration. The reason for this is that the three individuals who could win the next election are all hardnosed negotiators, all capable of stitching together the political arrangement that has eluded the previous three presidents.

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Middle-class Mexico is something rather new. Of course, there have always been individuals who have belonged to the middle class, however elusive the term. But something else has been happening over the past several years that is transforming Mexican society in ways that we could only have dreamed of in the past.

In one word, Mexico is rapidly becoming a middle-class society. A majority of Mexicans today have improved their standards of living to the point that they have options and a freedom of action and thinking that none of their predecessors had. Of course, the Mexican middle class is less well off than its British equivalent, but the behavior of its members is not altogether different. Please allow me to explain why this is so and why this happened.

Three things have altered the reality of a huge number of Mexican families. First, the price of many of the goods that families consume has come down, in some cases spectacularly so. This is largely due to the liberalization of imports that has pushed domestic prices down, forced local producers to compete with the best that the rest of the world has to offer, and to improve quality. Just to give you two examples: the price of meat fell 40% in real terms from 1991 to 2009, and prices for shoes and clothing decreased 60% in real terms over the same period. It is true that many Chinese or Korean companies have made a killing with their goods, but Mexicans live much better thanks to them.

The second thing that explains the growth of the middle class is the diversification of incomes in a single household. It is plain for all to see that the average real income (not counting those of the most modern, export-driven factories) has not increased over the past several years, but the accumulated family income has transformed the financial reality of millions of families. Multiple incomes convey a sense of stability that ends all concerns about survival, inherent in people in poverty. Per capita income increased 40% from 1988 to 2008; life expectancy increased from 60 years in women and 56 in men to 73 and 78 years, respectively since 1960; years of schooling doubled in the past thirty years; meat consumption increased from 34 to 62 kilos per capita annually in the past fifteen years. The number of vehicles rose from 3.9 million to 19 million in twenty years. One only has to see the ever growing shopping centers and movie complexes throughout the country to realize how much Mexican society has changed. How much wealthier it is.

Finally, the third thing that has altered the Mexican's reality, and probably the strongest and most permanent of these, is the fact that a mortgage market has developed since

2000. More than six million Mexican families have been able to purchase and pay for a house, creating, for the first time in their lives, a real-asset. This cannot be overstated. The fact that that many families are now owners of their own home constitutes a foundation for stability. And, indeed, Mexicans have greatly benefitted from the financial stability that has allowed them to acquire these homes and, not surprisingly, have now become key stakeholders for sound financial practice in the government.

This is not the first time that the middle class has grown, though never to this extent. The first big wave of middle-class growth was during the fifties and sixties, thanks to years of high economic performance, low inflation, and the consolidation of typical middle-class activities, such as the professions, the bureaucracy, teachers, and the like. Then, during the seventies, public-sector unions succeeded in forcing the government to increase salaries and benefits. Today's middle class is more akin to the first wave than to the second, for its success is meritorious rather than the result of political pressure. On the other hand, a great amount of the strength that lies behind increased household income today is due to the informal economy which has created millions of jobs, even if these involve no fringe benefits or certainty. The same goes for remittances that parents, sons and daughters send to their families from abroad and that has created a source of income that was unfathomable in the past. Whatever the source, the fact of the matter is that Mexican society is changing for the better.

Middle-class Mexicans represent both an opportunity and a challenge. In economic terms, this could be the most important source of demand, the domestic growth engine, for which Mexico has been striving for years. In political terms, the members of this contingent are changing the electoral landscape.

First, these people typically do not align themselves with any political party and have become the foremost source of independent voters in the country, those that today decide election outcomes. The old, Soviet-like majorities of the past are long gone and would be unable to return under any plausible scenario. Second, these citizens are becoming ever more discerning. Middle-class Mexicans do not like empty promises and they run from financial risk. They are also the main victims of crime and the most vocal in demanding an end to impunity and violence. These are Mexicans who are willing to

buy glass that is half-full, as long as their perceived risk is minimal. Perhaps an odd combination, but a source of very welcome stability nonetheless.

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Any reasonable observer of today's Mexico, including much of its citizenry, may well conclude that the problems are so huge, so overwhelming, that it is impossible to move ahead. Politicians fail to reach agreements; there appears to be no end to crime, both big and small; the economy, while growing rapidly, is not creating many new jobs; and we now find ourselves at the fringes of yet another electoral season. The future looks complicated. And, yet, if one looks back, what is amazing is how much has, in fact, changed, much of it for the better.

It would be easy for me to present to you how the country might be transformed in a matter of years simply by fixing its politics and building on that. This may or may not happen, but there are many things, much less ambitious than a comprehensive overhaul, that could be performed and that could bring about change pretty quickly. Imagine for a moment the following scenario: you are on a low-flying aircraft, observing traffic in a major Mexican city artery from above. The picture that emerges tells an interesting story: first, one would see normal automobile flows in some segments, with lots of obstacles every few blocks. In some cases, the obstacle could be an accident, but most likely it would be some public works project being carried out at rush hour, a car parked in the wrong place, a street vendor selling something and creating a traffic jam, a poorly operating traffic light. Observed from above, it appears quite clear that a few actions could make traffic flow much better and faster. The same could be said for the economy. Although one might dream of an overall transformation, a few relatively minor changes in various parts could unleash extraordinary forces and resources.

Let me give you two examples. A recent study from a major global consulting company compared the productivity of the construction industry in Mexico and in the U.S. To no one's surprise, the American industry was several times more productive than the Mexican. Some explanations were obvious: there is much more capital invested, more use of machinery, and better materials. Yet, the analysts did not stop there. They went

on to eliminate the distortions that these elements could introduce into the comparison. The result was no different. When labor productivity was compared, the Americans were still much more productive. The interesting fact, and the reason that this exercise is so telling, is that the workers on both sides of the border are Mexican. In one case they were migrants, in the other not, but they could have been brothers and sisters or cousins. What made an enormous difference was not the capital invested, but the methodology, the productive methods and, no less important, the rules of the game. Americans have clear-cut rules (both from the government as well as from the construction company) and use well-developed practices that improve productivity and deliver better results. Same workers, better rules. We are not talking about state secrets here, just better practices that anyone could learn and apply. The point is that a lot of things in Mexico could be fixed very quickly.

Let me proceed to another example. Agriculture and land tenure have always plagued the majority of Latin-American nations. A combination of weak property rights, old customs, abuse by large land owners, and old colonial rules and practices have created much poverty in rural areas, very unproductive lands, and few options for development. Some countries gave away lands, others undertook ambitious land reform projects, and still others created collective property schemes such as the Mexican land-holding system, the *ejido*. Decades, even centuries, went by, and although much changed in the structure of property, poverty and production remained unmoved. Many years ago, the then Brazilian Central Bank head, Carlos Langoni, offered the perfect solution. He started by describing several examples of failed land reforms and how each had been different, and yet all had ended the same way. His solution, very easy: "Give each peasant one hectare of land and one Japanese".

This may sound like a joke but it is not. The Japanese have proven that the right rules create conditions under which even the smallest, most remote and apparently inaccessible piece of land can blossom forth. But we Mexicans are very good at setting rules that do not work or, more often than not, rules that conspire against production and productivity. Hernando de Soto, a cosmopolitan Peruvian who has thought a lot about these issues and has tried many solutions, puts it like few could: "When I was

growing up in Peru, I was told that the farms I visited belonged to farming communities and not to the individual farmers. Yet as I walked from field to field, a different dog would bark. The dogs were ignorant of the prevailing law; all they knew was which land their masters controlled. In the next 150 years those nations whose laws recognize what the dogs already know will be the ones who enjoy the benefits of a modern market economy". De Soto is right: the dogs may know who the law, but the masters know that they cannot risk their small capital if property rights do not protect them. Peru and Mexico are identical in this regard.

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Quo Vadis Mexico?

Three sayings capture much of the spirit of Mexicans over the past century:

First, an old retort from colonial times, "I obey but I will not comply"; second, "there is no evil that lasts more than six years", referring to the length of a presidential term; and the third, which is a play of words in Spanish, that goes like this "morality is a tree that yields berries or it is nothing", referring to political morals as not being related to ethics.

I mention these three because they grasp the nature of the relationship between Mexicans and their system of government. They capture the essence of the country, but they also convey a sense of warning: for change to be possible, for the country to become fully modern, the people must buy into it, they must see that they will be better off. To date, that is not obvious to most.

There have been two economically successful eras in Mexico's history: one at the end of the 19<sup>th</sup> century and the other during the good years of PRI rule. The common trait was a strong central government. The lesson for the future is that Mexico will function either with a strong central government or under very strong institutions. But it will not function in the absence of both.

The experiment of decentralization and democracy of the last two decades shows the pitfalls of decentralization without strong institutions, either at the national or state level. During these years, power and the budget were handed over to the states, creating

local power strongholds rather than an effective system of governance. One sharp observer says that Mexico is the only nation in world history to have gone from monarchy to feudalism.

But the issue of decentralization is more than comical. It embodies the true challenge that Mexico faces: how to consolidate the extraordinary accomplishment of creating a majority middle-class nation from the complexity that I've attempted to describe today.

This is the real question. To get there would have entailed addressing and resolving both the governance issue and the economic conundrum.

Mexico today is an open society and, fundamentally, a market economy. It now needs to become a true democracy and a decent place as well.

John Womack, a Harvard professor who has long studied Mexico, couldn't have said it better: "Democracy does not produce, in and of itself, a decent way of living; rather, it is decent ways of living that make democracy possible."