Thinking About Mexico

The Current Situation and Long-Term Growth
ITAM, September 20, 2012

David Backus, New York University
dbackus@stern.nyu.edu
Today’s questions

• What would it take for
  – Mexico to become a more prosperous country?
  – Grow (say) 4-6% a year rather than 2%?

• Start thinking, I’ll come back to you
GDP per capita (USD, PPP adj)

Source: World Bank, World Development Indicators
Growth in GDP per capita (20-year avg)

Source: Penn World Tables.
How do we think about this?

• Output and inputs

\[ Y = A K^\alpha L^{1-\alpha} \]

\[ Y/POP = A (K/L)^\alpha (L/POP) \]

– GDP reflects inputs (K, L) and productivity (A)

• Evidence

– Rich countries usually rich because they have high A
– Recent growth in Mexico mostly L/POP
Productivity

Source: Derived from Penn World Tables.
How do we think about this?

- Where does productivity come from?
  - Generally thought to reflect “institutions”
  - Like what?
Institutions
Nineteenth century ocean shipping

Ocean shipping

• The message:
  – Productivity is in the environment, not the individual
• Immigration?
• Steve Jobs?
• Mexico?
• Who are the pirates?
Institutions

• What institutions are important?
• Which are most important for Mexico?
What others say

The most problematic factors for doing business

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percent of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption</td>
<td>16.4</td>
</tr>
<tr>
<td>Crime and theft</td>
<td>16.3</td>
</tr>
<tr>
<td>Inefficient government bureaucracy</td>
<td>14.2</td>
</tr>
<tr>
<td>Access to financing</td>
<td>10.1</td>
</tr>
<tr>
<td>Restrictive labor regulations</td>
<td>9.3</td>
</tr>
<tr>
<td>Tax regulations</td>
<td>9.0</td>
</tr>
<tr>
<td>Inadequate supply of infrastructure</td>
<td>6.4</td>
</tr>
<tr>
<td>Inadequately educated workforce</td>
<td>4.3</td>
</tr>
<tr>
<td>Tax rates</td>
<td>3.9</td>
</tr>
<tr>
<td>Insufficient capacity to innovate</td>
<td>3.7</td>
</tr>
<tr>
<td>Poor work ethic in national labor force</td>
<td>2.0</td>
</tr>
<tr>
<td>Policy instability</td>
<td>1.7</td>
</tr>
<tr>
<td>Inflation</td>
<td>1.3</td>
</tr>
<tr>
<td>Government instability/coups</td>
<td>0.6</td>
</tr>
<tr>
<td>Foreign currency regulations</td>
<td>0.4</td>
</tr>
<tr>
<td>Poor public health</td>
<td>0.3</td>
</tr>
</tbody>
</table>

What others say

• Woody Allen, Sleeper
  – Woody wakes up in the future, asks: “What happened to everybody, where are all my friends?”
  – Doctor: “A man named Albert Shanker got ahold of a nuclear warhead.”

• Does that sound familiar to you?
What others say

• EIU, Country Commerce Report
  – Many fear that Mr Pena Nieto is merely an amiable front for a corrupt and unreformed party. [But] the political environment in Mexico has changed in some fundamental ways since the PRI last held the presidency.

• Does that sound right to you?
What others say

• EIU, Country Finance Report
  – Despite a deepening domestic financial system, the private sector still encounters challenges obtaining credit at favourable terms, often leading [large] firms to seek financing in international capital markets.

• Does that sound right to you?
What others say

• World Economic Forum, Competitiveness Report
  – There is a lack of competition in some key strategic sectors, which spills over into most sectors of the economy.

• Does that sound right to you?
What others say

• EIU, Country Commerce Report
  – The corrupting influence of organised crime and its ability to undermine the effectiveness of the security forces and the judicial authorities remains a serious problem.

• Does that sound right to you?
What would you say?

- What are the major signs of progress in your lifetimes?
- What are the most important challenges ahead?
What Mexico looks like to me

• Reasonably successful middle-income country
• Significant progress building effective democratic institutions, macroeconomic stability, ...
• Lots of challenges ahead for you to take on
• Good luck!
Links

• Slides under research at http://pages.stern.nyu.edu/~dbackus/

   http://www.enterprisesurveys.org/Reports

• Penn World Tables: http://pwt.econ.upenn.edu/

• Doing Business: http://www.doingbusiness.org/

• Economist Intelligence Unit: ask your librarian

Extra slides
Control of corruption

Source: World Bank, Governance Indicators.
Cost of starting a business

Cost of enforcing contracts

Source: World Bank Group, Doing Business
What others say

• World Economic Forum, Competitiveness Report
  – Mexico still faces persistent structural challenges. The functioning of public institutions is still poorly assessed, particularly lack of security and low trust in politicians. The labor market is inefficient. Finally, Mexico’s potential is hampered by the low quality of education.

• Does that sound right to you?
What others say

• EIU, Country Commerce Report
  – Mexico’s government has traditionally played an important role in the domestic market. Recent administrations have … maintained government control over certain industries.

• Does that sound right to you?