

The Current Situation and Long-Term Growth

ITAM, September 20, 2012

Thinking About Mexico

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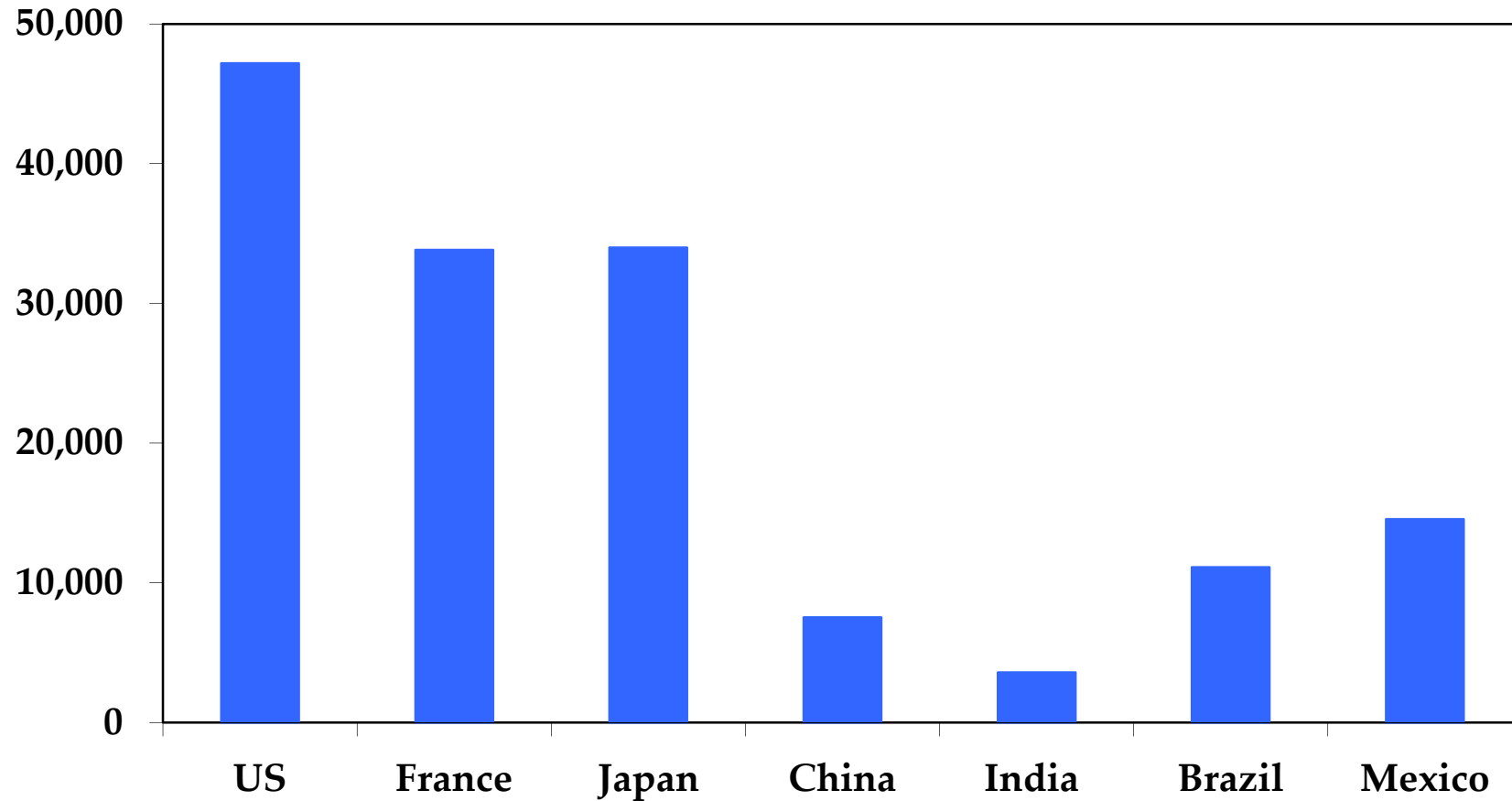
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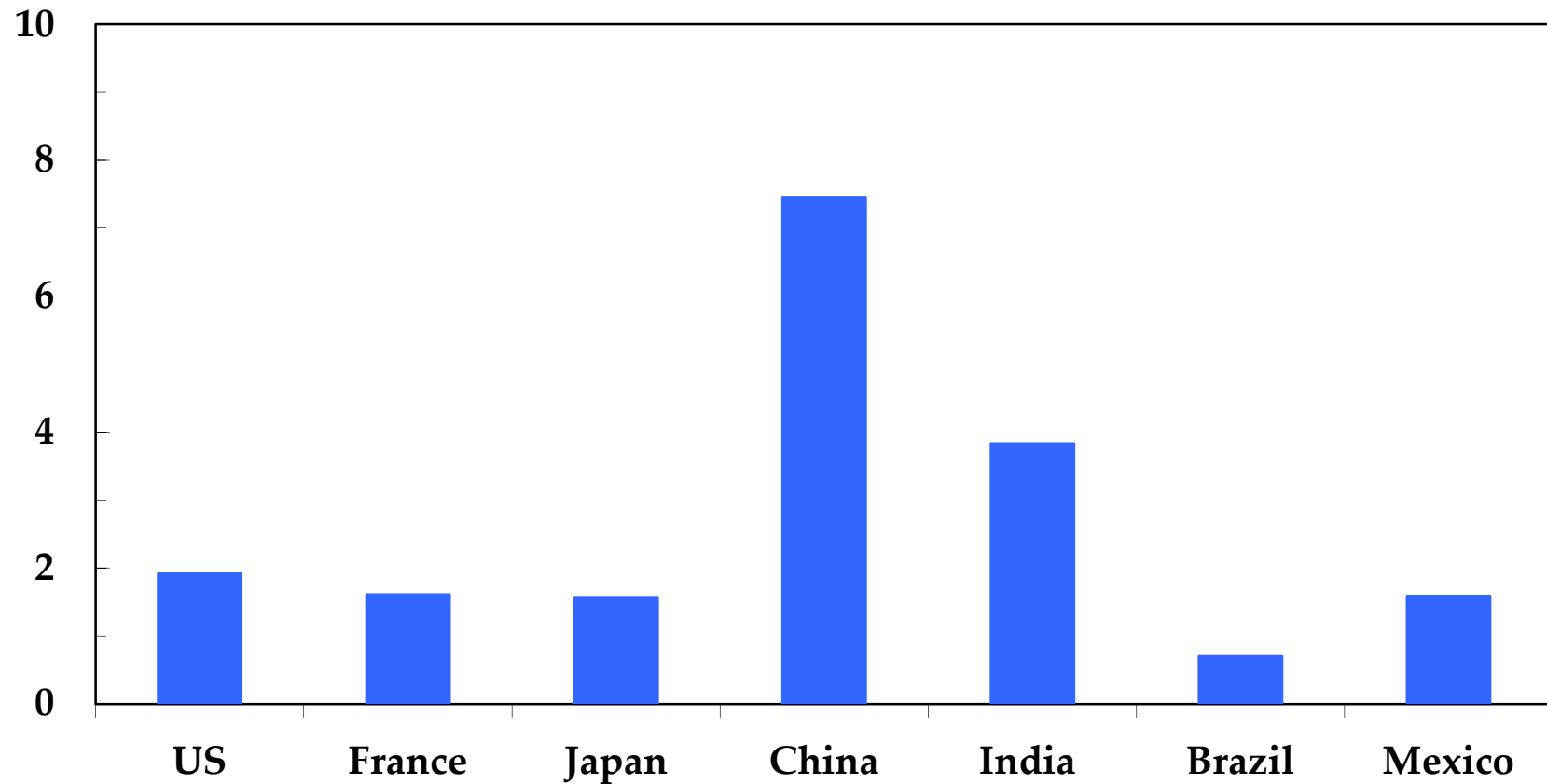
Today's questions

- 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)



Growth in GDP per capita (20-year avg)



How do we think about this?

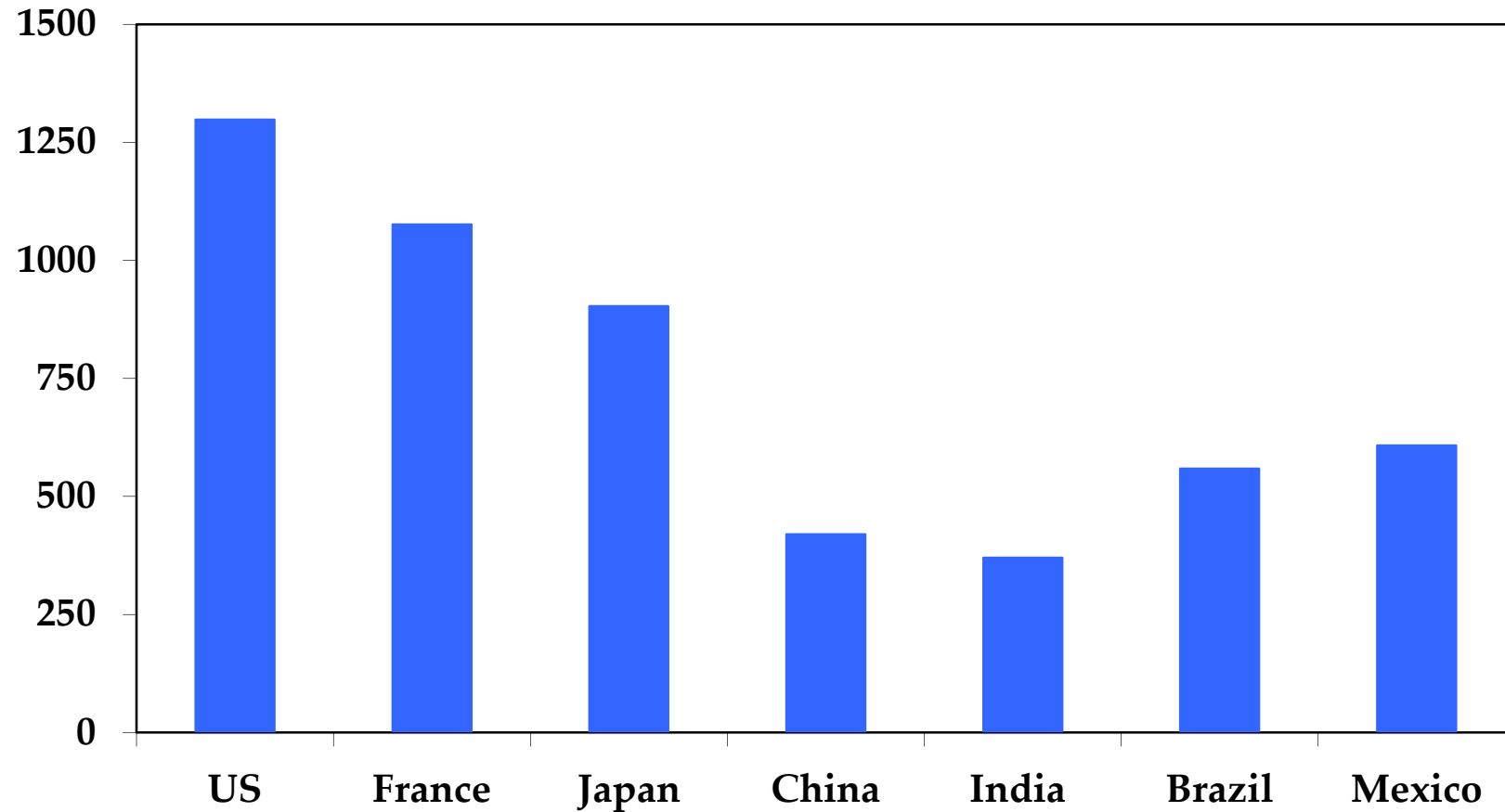
- Output and inputs

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

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

- 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

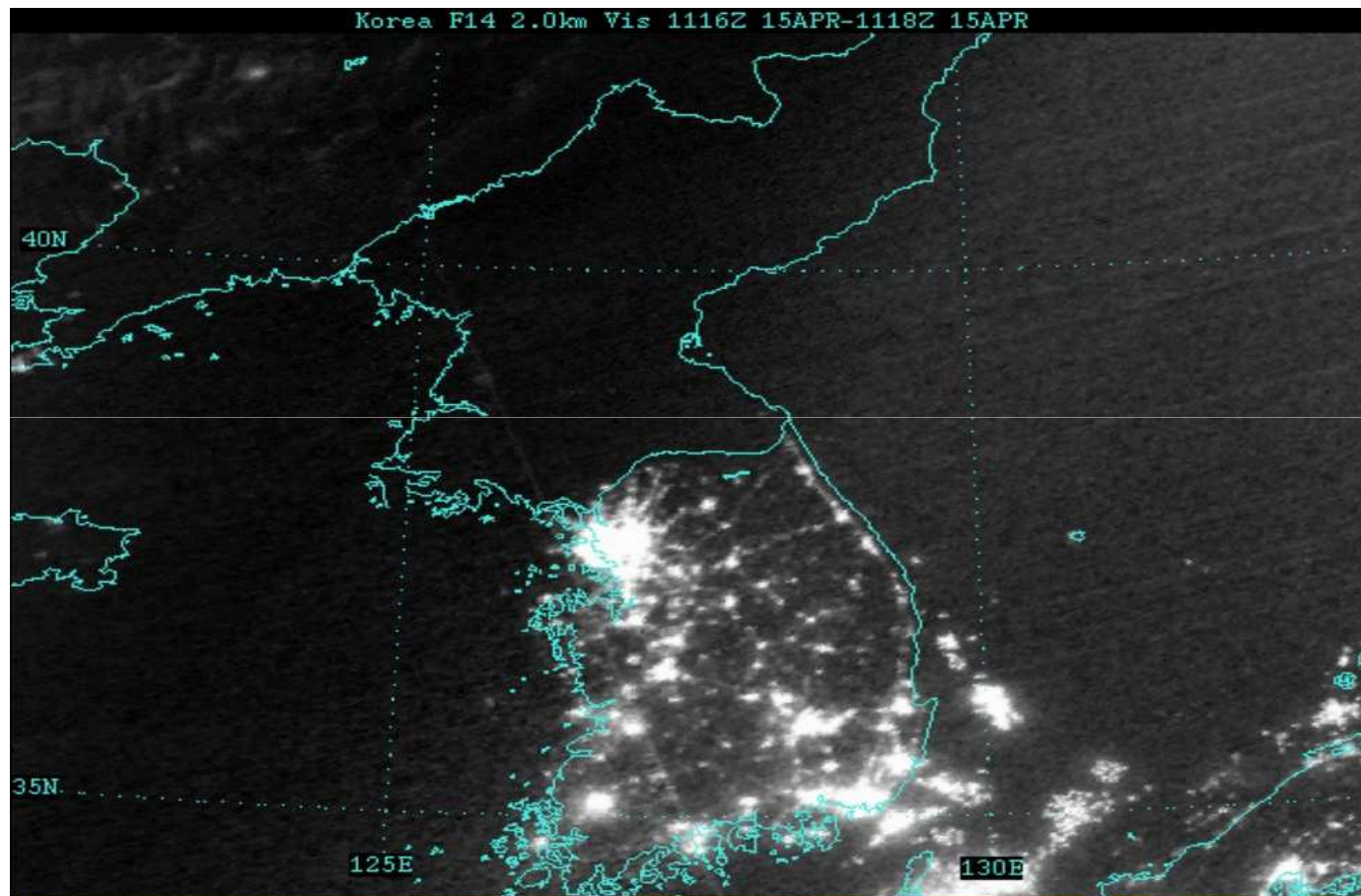


Source: Derived from Penn World Tables.

How do we think about this?

- Where does productivity come from?
 - Generally thought to reflect “institutions”
 - Like what?

Institutions



Nineteenth century ocean shipping



Source: Douglas North, Journal of Political Economy, 1968.

Ocean shipping

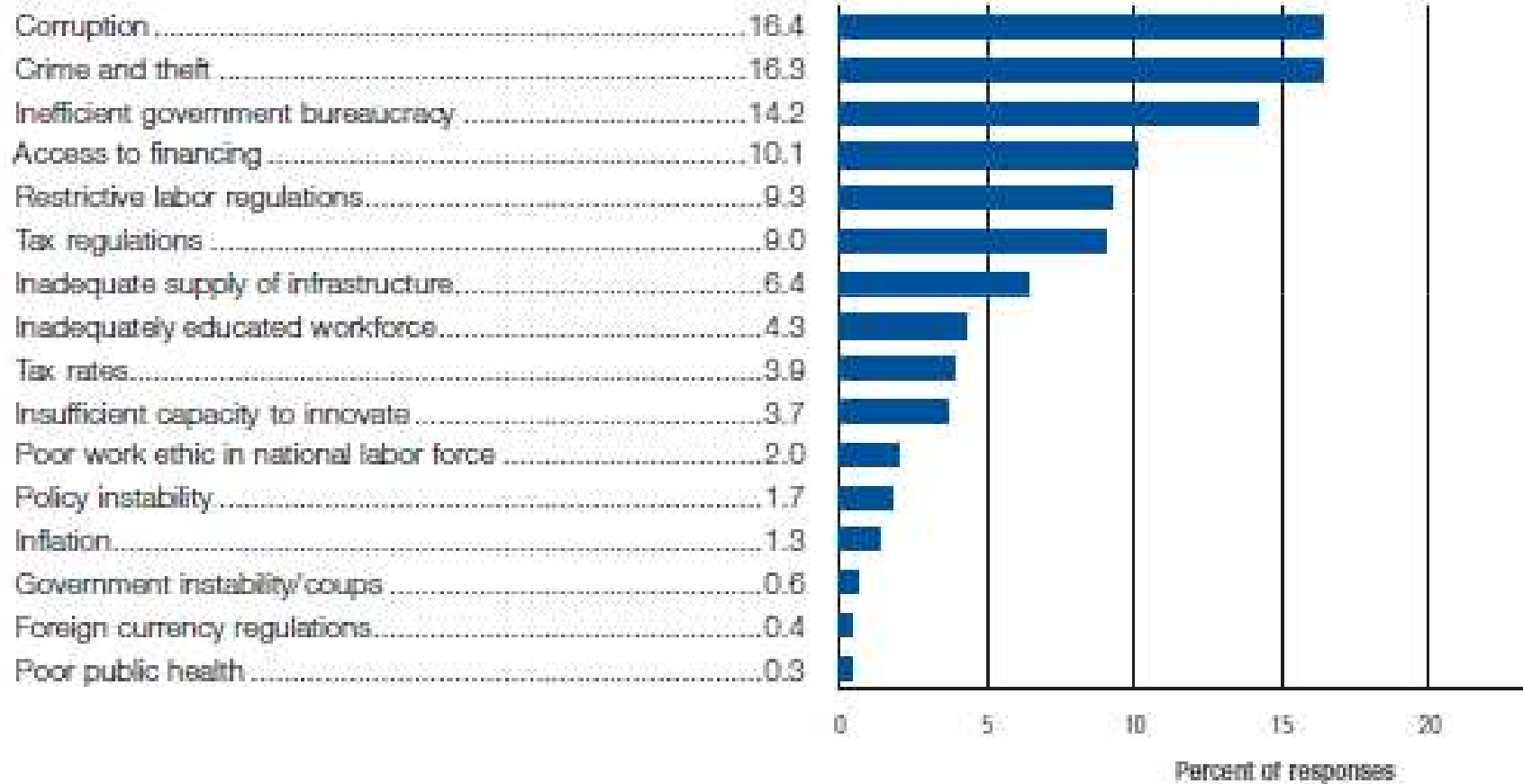
- The message:
 - Productivity is in the environment, not the individual
- Immigration?
- Steve Jobs?
- Mexico?
- Who are the pirates?

Institutions

- What institutions are important?
- Which are most important for Mexico?

What others say

The most problematic factors for doing business



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

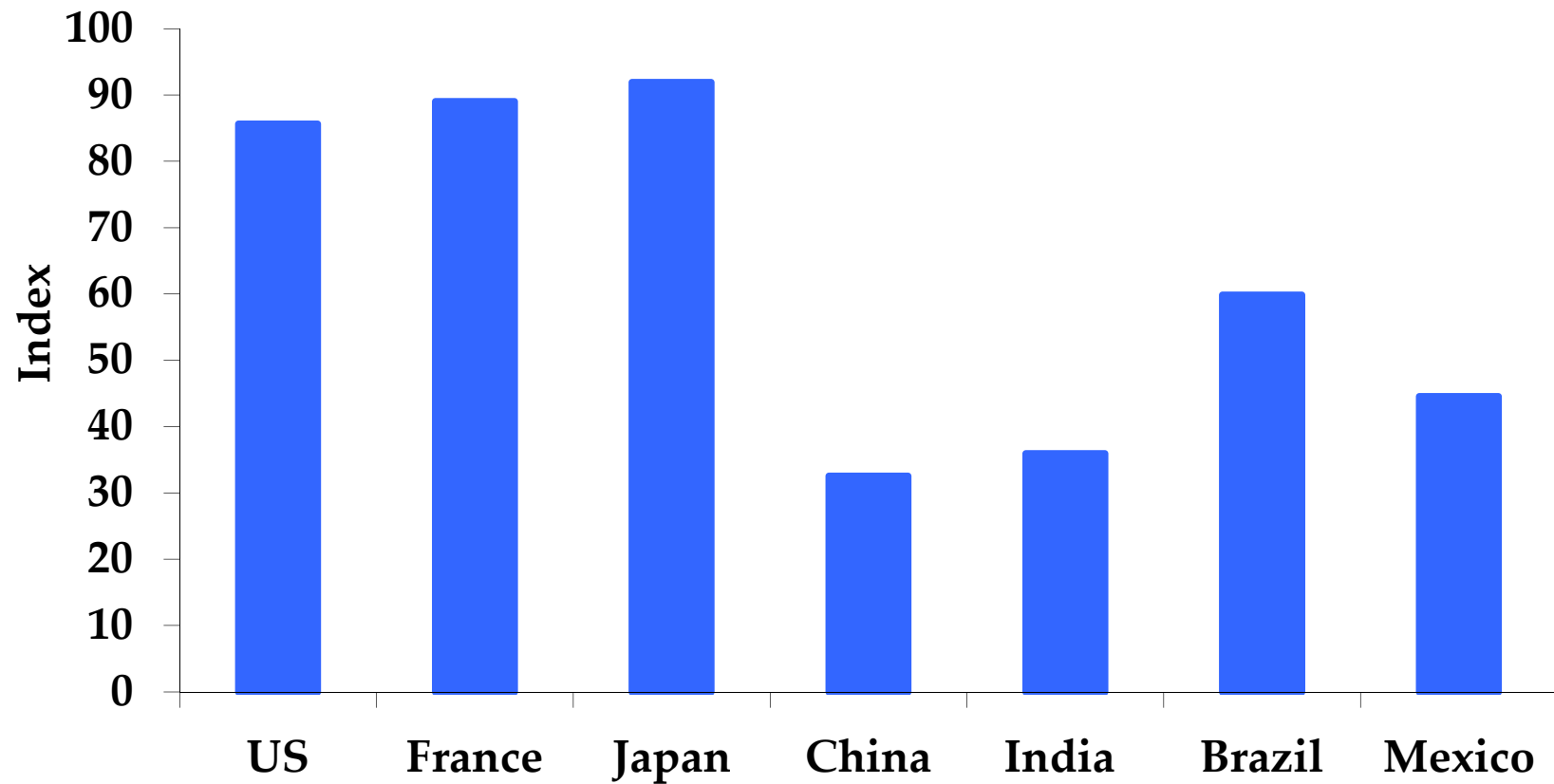
- Reasonably successful middle-income country
- Significant progress building effective democratic institutions, macroeconomic stability, ...
- Lots of challenges ahead for you to take on
- Good luck!

Links

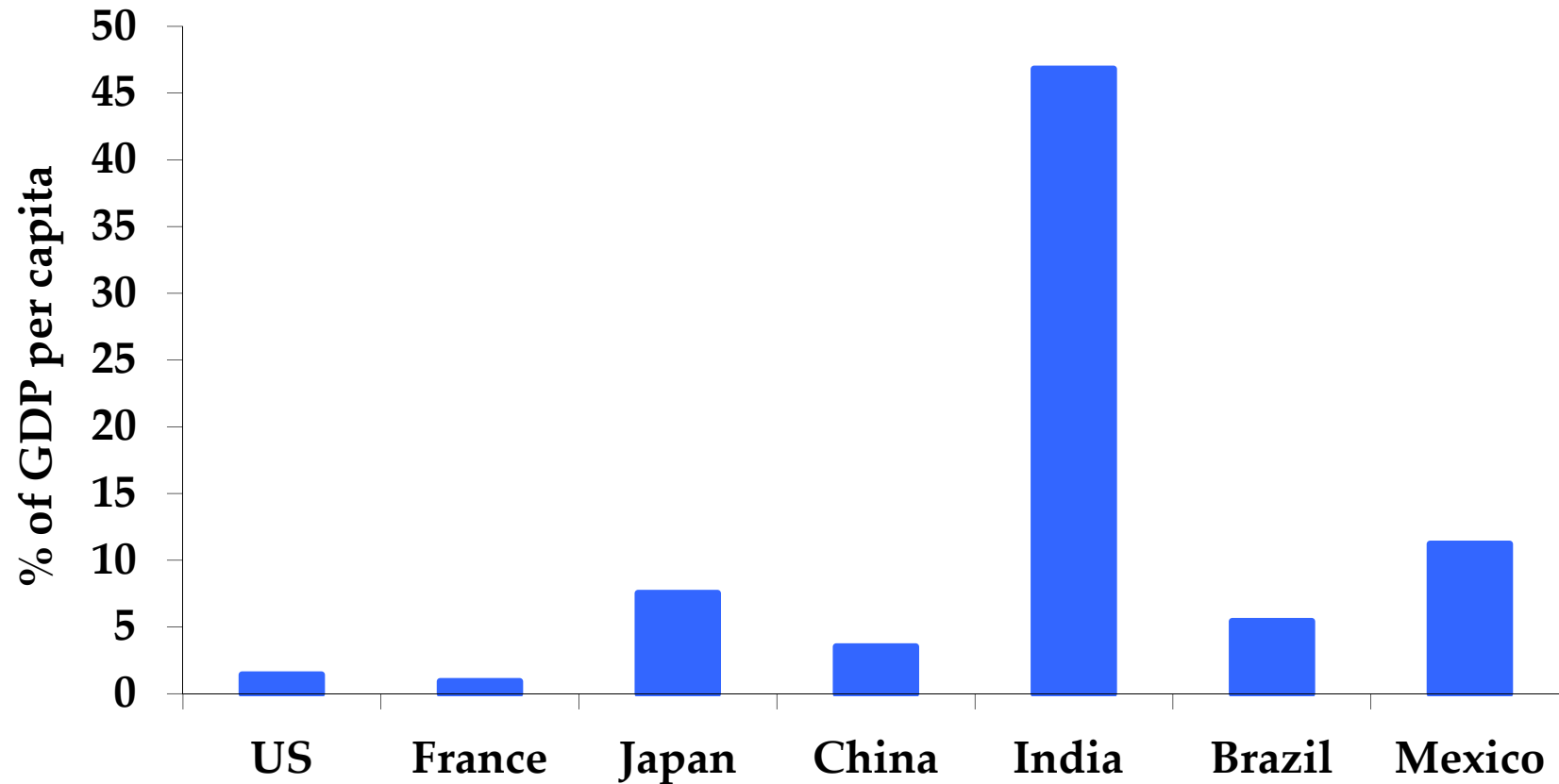
- Slides under research at <http://pages.stern.nyu.edu/~dbackus/>
- World Bank: <http://data.worldbank.org/data-catalog>
<http://www.enterprisesurveys.org/Reports>
- Penn World Tables: <http://pwt.econ.upenn.edu/>
- Doing Business: <http://www.doingbusiness.org/>
- Economist Intelligence Unit: ask your librarian
- World Economic Forum, Competitiveness Report: <http://reports.weforum.org/global-competitiveness-report-2012-2013/>

Extra slides

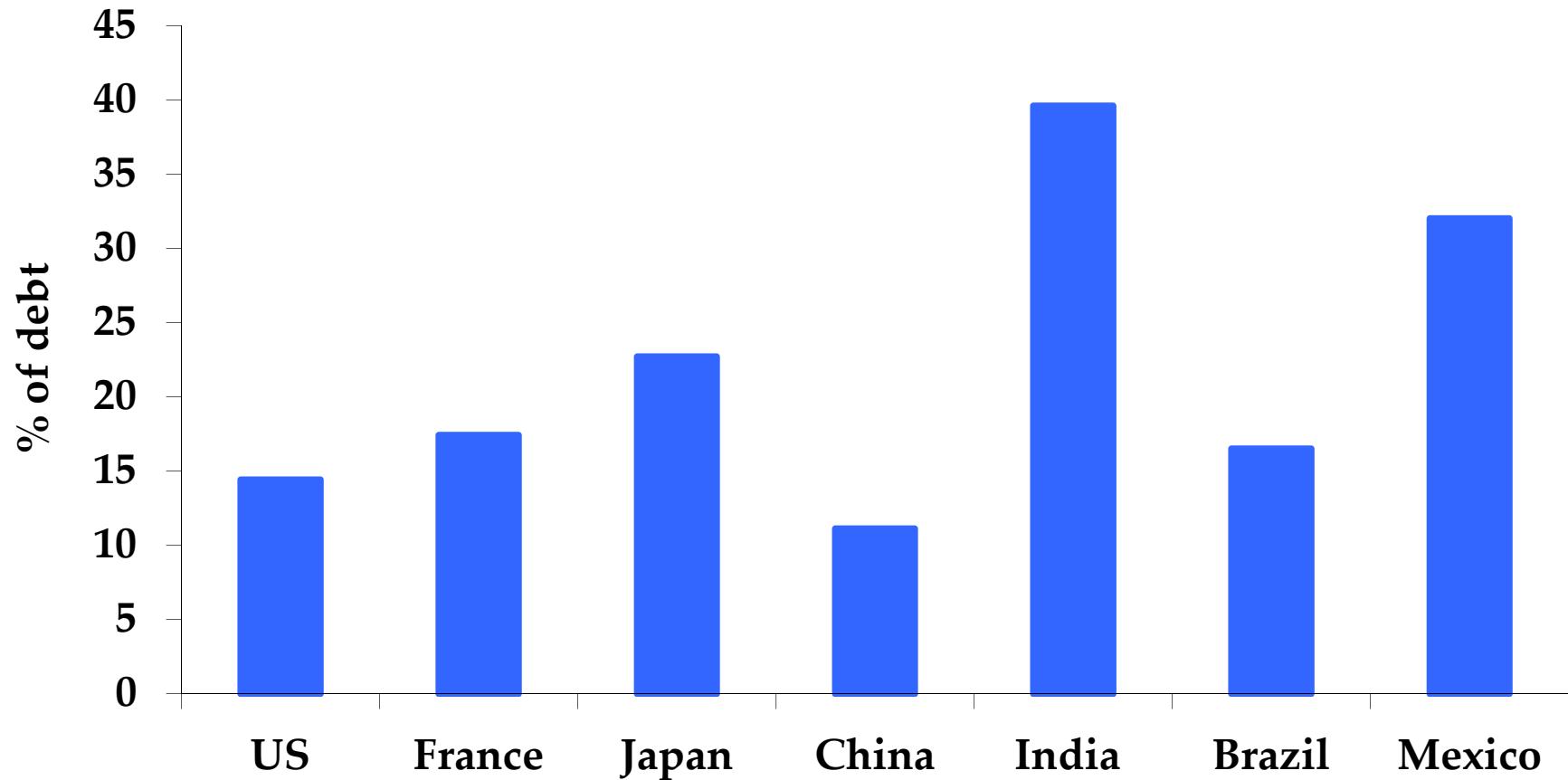
Control of corruption



Cost of starting a business



Cost of enforcing contracts



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?