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## Economic Measurements and Quality of Life in Mexico

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## ECONOMIC MEASUREMENTS AND QUALITY OF LIFE IN MEXICO

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*Using the Genuine Progress Indicator (GPI), the article seeks to evaluate the quality of life in modern Mexico. The GPI employs the same indicators used to arrive at per capita GDP, but adds positive and negative monetary and non-monetary actors that affect people's lives. Monetary factors include income distribution, increased health care cost due to air and water pollution, and loss of wetlands. Non-monetary factors involve parenting, time spent in highways, loss of leisure time, the cost of volunteer work, and other social costs. If one takes these into account, the purchasing power and quality of life of Mexican citizens are considerably lower than the per capita GDP would indicate.*

Economically speaking, modern Mexico is a paradox. According to official statistical data, the country's 2002 per capita Gross Domestic Product (GDP) was over \$8800 dollars. Yet the same data shows that 40 percent of Mexicans live below the poverty line, which the World Bank sets at \$2 per person per day. The country has a relatively strong industrial base and is the world's sixth largest oil producer. Mexico City and other major cities are lined with broad boulevards and sport modern high-rise building and other modern facilities. But Mexican citizens battle unbearable traffic jams, pervasive official corruption, and air, water and other forms of pollution. Health care is poor and lack of clean water, deforestation, and deteriorating agricultural land are a few of the many ills afflicting modern Mexico

If statistical tables and economic indices are to be taken as the sole criteria, the Mexican economy has performed well. According to official government statistics, per capita GDP has increased from a mere \$2085 in 1950 to over \$8800 in 2002. Yet this is not reflected in the daily lives of Mexican citizens. Oil revenues have enabled the government to seek the creation of a modern diversified industrial economy, but the country's auto industry is barely functioning and there are very few quality Mexican industrial products available in American and other world markets. Do statistics fail to tell the story? Is there a problem with economic indices? Why Mexico has been unable to match South Korea, Taiwan, Spain, and other success stories? And are there any remedies and solutions to Mexico's plight?

## ON GDP, GPI, AND ECONOMIC DEVELOPMENT

In order to be able to study economic activity and to help governments design, plan, and implement economic policy, economists sought to develop techniques and indices to measure and compare economic performance over time and across cultures. The last seven decades have seen a proliferation of such indices, aiming to track economic activity within individual countries and worldwide. National as well international organizations, such as the Bureau of Economic Analysis (BEA) and the World Bank, collect, interpret, and disseminate volumes of economic data purporting to measure economic growth, levels of poverty, and a host of other indicators, including government spending on the environment, defense, and education and numerous other social programs.

One of the most well known indices—and one that has gained considerable national and international currency in recent years—is the GDP. There are three equivalent approaches to calculating GDP: income, product, and expenditure. The first includes the income received by all producers, in the country; the second sums up the market value of goods and services; and the third is based on final spending on goods and services. The expenditure approach, which is the most widely used, sums up four types of expenditures: consumption, investment, government purchases, and net exports (*Quick MBA Economics*, 1999-2004).

Distinct from GDP is the Gross National Product (GNP), which measures the output of a nation's factors of production, regardless of whether they are located within the country's borders or outside. In contrast, GDP is generally defined as the market value of the goods and services produced by a country. For example, GNP includes the output of nationals working in another country, but GDP does not. In other words, GDP includes production within national borders, regardless of whether the labor, assets, and property inputs are domestically or foreign owned. In comparison, GNP incorporates income earned by the factors of production (assets and labor) owned by a country's residents, but leaves out income generated within the country's borders by factors of production owned by nonresidents. More and more economists consider the GDP as a more accurate measurement of economic performance "because it provides the greatest and broadest sectoral detail of any other data" (*Quick MBA Economics*, 1999-2004). Finally, worth noting is the Purchasing Power Parity (PPP) concept which measures the purchasing power of a country's currency. That is, "the number of units of that currency required to purchase the same representative basket of goods and services (or a similar basket of goods and services) that a US dollar (the reference currency) would buy in the United States" (*Human Development Report*, 1998:220).

Despite its widespread acceptability and use, GDP is not without its shortcomings. A group of economists have criticized it as a flawed and wanting

measurement of economic performance. Jason Venetoulis and Cliff Cobb are among GDP's severest critics. In their minds, accurate economic indicators must be "value free," and GDP is not. Using data from the San Francisco Bay Area (1950-2002), they observe that by concentrating exclusively on "monetary transactions as economic activity," the GDP disregards "social and environmental costs and contributions" and puts "zero value" on such important "things as the destruction of farmland and natural resources, longer-commute times, and the loss of free time." When one includes these factors in to the economic equation, "the result is a substantially different picture than that presented by the GDP." Venetoulis and Cobb conclude that the GDP is not a good "barometer" measuring a nation's "economic health and well-being, [or] a yardstick of economic progress" (Venetoulis and Cobb, 2004:1-5).

The two economists propose a different, more inclusive, more comprehensive, and less value-free measuring index of economic performance: the Genuine Progress Indicator (GPI). It employs the same indicators that are used in the GDP, but adds positive and negative factors that affect people's lives. In excess of twenty indicators go into the equation, including income distribution, and the value of volunteer and housework. Three non-monetary types of benefits, left out in GDP calculations, are taken in to consideration by the GPI: the value of time spent on household work, parenting, and volunteer work; the value of services of consumer durables (such as refrigerators); and services of highways and streets (Venetoulis and Cobb, 2004:3).

Besides inserting these three clusters, Venetoulis and Cobb subtract three new categories of expenses that impinge on people's quality of life. The first of the three are called "defensive expenditures," which they define "as money spent to maintain the household's level of comfort, security, or satisfaction, in the face of declines in quality of life due to such factors as crime, auto accidents, or pollution." Examples include hospital bills resulting from auto accidents, cost of repairing property due to air pollution, and installation of home security systems. The second is referred to as "social costs," and refers to divorce, loss of leisure time, and crime. Finally, the third category involves "the depreciation of environmental assets and natural resources." This is very broad category, ranging from loss of farmland and wetlands, to reduction in the supply of natural resources, and the deleterious affects of wastes and pollution. If these categories of factors are included in the calculation "[t]he result is a substantially different picture that that presented by the GDP" (Venetoulis and Cobb, 2004:3). This assertion is supported by data obtained in the San Francisco Bay Area. Venetoulis and Cobb report that in 2000, for example, the per capita GDP in the area was about 15 percent higher than the average GPI (2004:8). While admitting that the GPI "cannot accurately reflect everything of value in the economy—or life for that matter," nonetheless it "helps highlight an important message: the quality of economic development is at least as important as the

quality of economic activity as measured by GDP" (Venetoulis and Cobb, 2004:1).

But if the GPI can gauge the quality of development, it has no way of predicting that economic development will occur, any more than the GDP can. Economists and other social scientists have labored hard to identify or construct a development paradigm. Despite substantial differences in approach, the proponents of modernization, dependency, world-system, and market reform models agree that countries fail to develop because some obstacle--such as lack of a key resource, weak state structures, or being outside the core of the capitalist world--prevents economic growth. In their article Nicole Woolsey Biggart and Mauro G. Guillen reject both the validity of the "critical factor" argument as well as the notion that there is "single path to development." According to them, there are different "viable paths" and development depends on historical, social, cultural, and organizational factors. "Economic growth," they assert, "depends on linking a country's historically developed patterns of social organization to the opportunities of global markets." But states are social organizations that do not exist in a vacuum, but "are a product of history and may have different legitimate roles in economic decision making across societies." State and societal organization and patterns of thinking and behaving are intimately connected to the very nature of the state and the society that support them. As such, "social and economic organization is informed by historically developed logics, which are changed only with difficulty" (Woolsey Biggart and Guillen, 1999:742).

Using the auto industries of South Korea, Taiwan, Spain, and Argentina, Woolsey Biggart and Guillen support empirically the importance of culture in economic development—a point made by a well-known French social scientist over four decades ago. In his classic, *A History of Civilizations*, Fernand Braudel wrote:

In every period, a certain view of the world, a collective mentality, dominates the whole mass of society. Far more than the accidents or the historical circumstances of a period, it derives from the distant past, from ancient beliefs, fears, and anxieties which are almost unconscious—an immense contamination whose germs are lost to memory but transmitted from generation to generation. A society's reactions to the events of the day, to the pressure upon it, to the decisions it must face, are less a matter of logic or even self-interest than the response to an unexpressed and often inexpressible compulsion arising from the collective unconscious. (Braudel, 1993:22)

Further elaborating their argument, Woosley Biggart and Guillen make three significant points. First, national economies are “organized institutional arenas” whose organizational structure and logic “are historically developed, causally complex, and difficult to change in fundamental ways.” Second, the very nature and substance of the “organizing logics limit countries’ abilities to copy each other’s development strategies.” And three, cultural and social antecedents “influence a country’s ability to produce efficiently and effectively.” They note that “production systems” are not created in a social vacuum. Instead, “social patterns may promote or constrain the ability to innovate” (Woosley Biggard and Guillen, 1999:742).

### NUMBERS CONFRONT REALITY

Modern Mexico exemplifies the gap between per capita GDP and GPI as well as the affects of cultural and social factors in economic development. Let us look at the specifics. If measured by GDP alone, the country has experienced tremendous economic growth. Adjusted for inflation (2002 US dollars), Mexico’s per capita GDP followed an impressive growth trajectory. Ten years after independence (1810) the per capita GDP stood at a mere \$760. Eight decades later it had increased to \$1157, and in 1950 it stood at \$2085. By 1973, a few years before the nation faced an economic crisis, the per capita GDP had climbed to \$4189, and by 2002 it had grown to \$8811. Table 1 charts the percentage of growth in Mexico since the early 1960s.

Despite the considerable economic slowdown, and even negative growth during the 1980s, measured by GDP, Mexico’s overall economy performed remarkably well. Yet, these impressive statistics obfuscate the true picture. An examination of some key quality of life indicators paint a more gloomy reality than one would expect from a 2000 per capita PPP of \$8,900. According to same source, official statistics, about 40 percent of Mexico’s roughly 105 million people live below the poverty line. It should be noted that for this region of the world a person needs a minimum of \$2 per day to meet nutrition and other essential needs (*CIA World Factbook*, 2003). Slightly less than half of the 40 percent of poor Mexicans live in absolute poverty. The United Nations’ *Human Development Report 1997*, defines absolute poverty as “the income or expenditure level below which a minimum adequate diet plus essential non-food requirements are not affordable” (*Human Development Report*, 1997:238). What explains widespread poverty in the midst of moderate per capita GDP and purchasing power parity?

**TABLE 1**  
**Mexico: GDP Growth Rate**  
**(in percentages)**

<u>Year</u>	<u>Rate</u>
1961	4.8
1963	7.5
1964	10.6
1967	5.5
1968	8.6
1970	6.1
1972	3.6
1974	5.5
1983	-4.2
1984	3.6
1985	2.6
1986	-3.8
1987	1.9
1988	1.2
1989	3.3
1990	4.4
1991	4.2
1992	3.7
1993	1.8
1994	4.4
1995	-6.1
1996	5.4
1997	6.8
1998	5.1
1999	3.6
2000	6.7
2001	-0.3
2002	0.8

Source: For the years 1961-1982, data are from World Resources Institute: *GDP Yearly Growth*. Washington, DC. 2003. For the years 1983-2002, the data was adopted from Charles H. Blake, *Politics in Latin America*. Boston and New York: Houghton Mifflin Company, 2005, p. 350.

Mexico suffers from staggering income disparity and uneven distribution of wealth. The country's lower 10 percent of the population possess only 1.6 percent of the nation's wealth, while the top 10 percent owns 41.1 percent (*CIA World Factbook*, 2003). The Gini Index, which measures income distribution, gave Mexico a high score of 53.1 in 1998. It should be noted that the lower the index, the more evenly income is distributed, the higher the less equitably (zero represents perfect equality, and 100 perfect inequality). For purposes of comparison, in the same year Japan scored 24.9, Britain 36.0, Jordan 36.4, China 40.3, US 40.8, and Russia 45.6. Mexico's neighbors display similar distribution rates: Ecuador 43.7, El Salvador 52.3, Peru 46.2, and Venezuela 48.8. The majority of Third World developing countries show similar patterns as Mexico's as far as income distribution and economic inequality are concerned (*World Development Report*, 2001:282-283).

Corruption—that is, official misconduct or the abuse of power for private gain—is another factor that impedes a more equitable distribution of wealth in the Mexican landscape. Compiled and published by the Berlin-based Transparency International, the Corruption Perceptions Index (CPI) measures official misconduct, using a scale of 0 (most corrupt) to 10 (least corrupt). A score below 5.0 is considered very negative. Mexico fares poorly. In 1998, with a score of 3.7 the country was ranked 50<sup>th</sup> out of 85 countries surveyed. The 2001 survey included 91 countries and gave Mexico the same score, although it ranked dropped a notch, to 51. The next year's data featured 102 countries and Mexico showed a slight drop in score and rank, 3.6 and 58 respectively. Finally, the most recent results (2003), involving 133 countries, reflect an unchanged situation as far as the score, but a drop in rank from 58 to 56 (*Transparency International*, 1998-2003).

The rankings of the CPI index are supported by numerous scholarly publications. Gary W. Wynia, for example, states that “[n]o introduction to Mexican politics is complete without mention of the ‘corruption’ for which the nation has become notorious. Millions of dollars change hands every day between government officials and citizens.” He goes on to say that “payments induce police to drop charges, tax collectors to ignore certain taxpayers, and government corporations to sign contracts with suppliers.” Wynia reports that “few arrests” are made and “then only for the most outrageous abuses.” He concludes on a pessimistic note: “For everyone else the need to pay for services will continue to be part of Mexican way of life, enticing new generations of politicians and civil servants to earn as much as their predecessors”(Wynia, 1990:152-153).

GPI quality of life costs compound the problem and further reduce Mexican citizens' incomes as reflected by GDP numbers. Nearly 75 percent of the country's population lives in large urban areas. A whopping 22 percent (approximately 20 million) make their home in the capital, Mexico City. The capital's population density is staggering: “5,500 persons per square kilometer.”



Public transportation and privately owned vehicles create horrendous traffic jams. It is estimated that the average resident spends over three hours a day to go home to work and back (*Mexico: A Country Study*, 1997:91-92). In addition to lost time on the road, citizens have to cope with crime and fear for their personal security. "More than 100 serious crimes are reported each day in Mexico City." In 1997, for example, "one police officer was killed and one injured weekly." Corruption among law enforcement officials and low pay are among the culprits. It is no accident that "a sense of insecurity prevails among many citizens because of the lack of confidence in the police and fear of police misbehavior" (*Mexico: A Country Study*, 1997:325-326). Mexico ranks 57 out of 59 countries in police reliability to protect private business, and 52 in legal corruption (*Global Competitiveness Report*, 200:249-252). Those who can afford hire private security, but others are forced to spend precious resources on extra locks, guns, and other security-rendering devices.

Air and water pollution harm the quality of life and put additional pressure on already overstretched family budgets. Mexico's large industrial cities, such as Monterrey, Guadalajara, and Mexico City, as well as areas along the US border, are suffering the most. Despite some slight improvement in recent years, the Mexican megalopolis, for example, continues to have "the worst air pollution of any city on earth: the air quality is so bad that simple breathing was like smoking two packs of cigarettes a day" (Green and Luehrmann, 22003:19). Lower wages and lax environmental regulations have prompted American firms to set up production facilities—known as maquiladoras—alongside the US border, attracting an increasing number of Mexican workers (Danopoulos, 2004:41-56).

Population increase, coupled with poor waste management, antiquated equipment, and poor environmental regulation, have wreaked havoc in the air and water quality of these areas. The Rio Grande, a historically significant landmark to Mexican culture, has become "so contaminated by human fecal matter in the El Paso-Juarez area that even skin contact is dangerous because of the possible exposure to cholera and hepatitis and the micro organisms that cause dysentery carried in the waste" (*Los Angeles Times*, 1994). As result, health risks have intensified. For example, the average rate of hepatitis in the border region has stayed at 2-3 times the U.S. national average. All these are costs that are not included in GDP calculations, but have a negative affect on quality of life-related GPI categories of expenses. Even though there is no data to calculate the exact cost of these factors, the Mexican case exemplify Venetoulis and Cobb's contention that the GDP "is not a value free" measurement; neither is it a realistic method of measuring a country's market value of goods and services nor the true PPP of its citizens Venetoulis and Cobb, 2004:2).

## THE SOCIAL AND POLITICAL SETTING

As stated earlier, GPI is as powerless as GDP to predict economic development or the success of a country's efforts to bring about economic growth through industrialization or other means. Success or failure is influenced by cultural, social, and historical logics. To understand the gap between GDP and PPI in the Mexican context an understanding of the country's milieu would be in order.

Not even national independence can rival the seminal importance of the Mexican Revolution (1910-1917) on the nature and the character of the Mexican state and its economic, social, political, and other institutions and ways of life. It began as a popular insurrection against the oligarchic Porfirio Diaz dictatorship, and was led by middle sectors, peasants, and working class people who "were denied large shares of the expanding pie." What followed was a chaotic uprising, which when it ended in 1917 had "destroyed the army, broke the grip of the regional bosses, drastically reduced what was left of the power of the Catholic Church, and weakened the strength of the landed elite" (Wynia, 1990:144). A decade of violent revolution took the lives of an estimated 10 percent of the population, including the top leaders: Zapata, Villa, and Madero. The 1917 constitution brought the bloody uprising to an end and proceeded to forge a political system that ostensibly espouses liberal democracy, with popularly elected legislature and president, and an independent judiciary. But behind the democratic façade, the constitution established "a highly centralized and hierarchical political machine whose leaders exercised immense control over the nation" (Wynia, 1990:145).

The country's post-revolution political system was strengthened in 1928, when President Plutarco Calles launched the National Revolutionary Party (PRI)--an organization that consisted of regional revolutionary generals and their followers. PRI became the nation's dominant political force and governed the country continuously for over seven decades. His successor, Lazaro Cardenas (1934-1940), introduced land reform and took additional steps rendering PRI in to a "corporatist-like party organization composed of three sectors: the Mexican Confederation of Labor; the national Peasant Association; and the so called 'popular' sector, which included teachers, public employees, small farmers, and the military"(Wynia, 1990:147). The highly centralized, Mexico City controlled, bureaucratic political and economic system is still largely in place and can be characterized as a prime example of a "corporatist state," i.e., a political system in which the government restricts the development and conduct of independent organizations. In other words, "[i]n corporatist systems society is divided by functions (such as unions, professional associations, etc), and government attempts to coordinate society by balancing groups that must negotiate with government for legal or economic benefits" (Green and Luehrmann, 2003:462).

The highly centralized, corporatist structure allowed Mexico's rulers to establish and maintain a stable economic system, and to usher the country into a path of industrialization and development. Under the import-substitution model of development the government sought to diversify the nation's economy and lessen its dependence on its neighbor to the north and other developed economies. It encouraged national industrialization by subsidizing and protecting local producers from foreign competition. As a result, a mixed economy emerged "with substantial state involvement and an expanding public sector, which included strategic industries, such as telecommunications, railroads, airlines, electric power, steel, mining, and, of course, petroleum and petrochemicals"(Hamilton, 2002:299). The importance of agriculture in the nation's GDP diminished considerably. In 2002, for instance, agriculture contributed only 5 percent to Mexico's GDP while the industrial sector's share was 26 percent and services 69 percent (*CIA World Factbook*, 2003).

Mexico City's immense power to control and the corporatist political arrangement enabled the country to industrialize "with less rancor and class conflict" than any of its Latin America neighbors. The pervasive tentacles of PRI and its sheer enormity "kept organized labor and the rural poor under its close supervision" (Wynia, 1990:147). Wages were kept low and the state managed to co-opt organized labor "by strengthening labor leaders who were loyal to the government, creat[ing] a relatively low-cost and docile labor movement"(Kaufman Purcell, 1990:404). Yet Mexican presidents knew the potential power of organized labor and they used delicate balancing acts and doses of federal funds to dampen signs of labor unrest. Despite its seeming docility, then, organized labor was and remains one of the main pillars of the Mexican edifice, as organized and guided by the PRI.

Besides the government and PRI dominated organized labor, the business community is the third and, arguably, the most powerful force. Even though Mexican presidents deliberately exclude domestic and foreign business from the limelight in order to maintain the populist image of the PRI and the government, they rely "on them (private entrepreneurs) to finance and manage much of the nation's mixed, capitalist economy" (Wynia, 1990:150). Banca Heredia describes the complex and often opaque and confrontational nature of government-business relations as "interdependence" 1995:193). The deterioration of Mexico's economy in recent years, coupled with the pressures of globalization and a weakening of PRI power, have forced the country's ruling elites to adopt a more open and friendly attitude toward the business sector. In fact, as Thomas E. Skidmore and Peter H. Smith point out, the last four PRI presidents (Jose Lopez Portillo, Miguel de la Madrid, Carlos Salinas, and Ernesto Zedillo) came from the more pro business and technocratic wing of the party (Skidmore and Smith, 1992:247). This is even more true with the current president, Vicente Fox, who comes from the traditionally business-friendly

National Action Party (PAN). His election in 2000 broke PRI's over seven decades long monopoly on power.

The brief discussion of Mexico's socio-economic and political history provides ample evidence to suggest that social organization influences a nation's economic structure, ambiance, and climate. Woosley Biggart and Guillen's assertion that economies are "organized institutional arenas" with historically informed logic which is hard to alter substantially (Woosley Biggart and Guillen, 1999:742). Wynia is on the mark when he states that "[a] process of political centralization that began under the Porfiriato (Diaz's rule, 1877-1911) was completed by the PRI, giving the president and his bureaucrats in Mexico City immense control over the nation, making a mockery of constitutional claims of having created a federal republic" (Wynia, 1990:148). Excessive centralization stifled innovation and did little to promote competition and trade. It is culture, social, and historical antecedents, and not Ivory Tower crafted models of economic development, that determine success or failure. NAFTA appears to have done little to mitigate the situation. While the World Bank claims that the trade association had a positive impact on the Mexican economy, an analysis by Mark Weisbrot, David Rosnick, and Dean Baker suggests "that NAFTA led to slower growth in Mexico over the last decade" (2004). Similarly, Fox's efforts to reform the system and bring about greater tax equity, reduce corruption, and improve the labor law have "made no substantive progress during the first half of his term." And his lame duck status offers little hope that he will be more successful in the remainder of his tenure in office (Blake, 2005:362-364). Herein lies an explanation in the significant gap between per capita GDP and GPI in Mexico.

### BY WAY OF CONCLUSION

How does Mexico close the gap between numbers and reality? In other words what should the country do to uplift the millions of Mexicans who are poor and destitute? What should it do to improve water quality, sanitation, the environment, and the quality of life of its people? Treatment of a disease begins with a diagnosis. The first thing that needs clarification is who are those that find themselves at or below the poverty line (40 percent of the population).

By and large, the ranks of the poor are filled with landless, unskilled people flooding the capital and other major industrial cities. The agrarian reform program that President Cardenas implemented in the 1930 expropriated land from rich landlords and redistributed it to landless peasants (campesinos). Though essential and helpful to many, the program was not sufficient to encompass the entire population. Some seven decades later, "[m]ost campesinos stay poor and a majority of them are still landless" (Wynia, 1990:154). Industrialization and the promise of employment it generated lured millions of them in urban industrial centers. Once in urban center they joined the

ranks of urban (lumpen) proletariat. The overwhelming majority of the poor and the destitute come from the ranks of migrants and their descendants. A good number of them are squatters who scrape up a living in the informal economy of Mexico City and other urban centers. What is needed is a way to empower and enable them to become productive citizens. How?

In a much quoted book, *The Mystery of Capital*, Hernando De Soto, a Peruvian social scientist, explains why capitalism works in the West, but fails every where else. Central to his theory is the contention that "the major stumbling block that keeps the rest of the world from benefiting from capitalism is its inability to produce capital." He attributes this to lack of solid and impregnable property rights, which robs people in developing countries of the opportunity to use property as "collateral for a loan [or] a share against investment." De Soto documents that "[m]ost of the poor already possess the assets they need to make a success of capitalism. Even in the poorest of countries, people save. The value of savings among the poor is, in fact, immense—forty times all foreign aid received throughout the world since 1945." But what they do not have is the necessary legal guarantees and property rights to turn their savings into capital generating assets (De Soto, 2000:5-6).

Ongoing social and economic problems have forced the Mexican government to step back and allow the entrepreneurial sector a much greater degree of freedom and influence in the country's economy. Beginning with the mid seventies, individuals with pro business attitudes ascended to the presidency and adopted pro business policies, while taking steps to reduce the role of interventionist role of the state in the nation's economy. Organized labor, though still holding considerable potential power, is searching to define its role now that its patron, the PRI, lost its once unchallengeable position.

Despite its diminishing position the Mexican state still holds immense political authority to introduce reforms that would empower the poor to become productive citizens. In another equally influential book, *The Other Path*, De Soto provides a promising strategy consisting of three interrelated and complimentary components: simplification, decentralization, and deregulation.

Simplification aims to identify and eliminate parts of the law that are unnecessary, redundant, and duplicative. This would require "steps to optimize the function of legal institutions" so that they function independently and objectively. Harmful legislation impedes would be entrepreneurial activity and encourages informality by "raising the cost of entering and remaining in formal activity"(De Soto, 1989:247). Simplification is similar to "re-bureaucratization." In De Soto's words, "simplification means reducing the cost of being productive without changing the political system" (De Soto, 1989:248).

By decentralization De Soto means to transfer "legislative and administrative" power to local and regional authorities. This does not mean shutting the central government down, but allowing local governments "a degree of decision making power" by giving them authority "to make laws on all those

matters which can be handled at the regional level." This would help because these governments are "in more direct contact with reality and the problems to be solved" (De Soto, 1989:249).

Finally, deregulation is seen as a means of increasing "the responsibilities of private individuals and reducing those of the state." This would accomplish four purposes: (1) would free the state from the responsibility of meddling involved with "production;" (2) would allow the state to concentrate in "administering justice" instead of "administering resources." This, in turn, would ensure respect for law and would minimize violations;" (3) freed from managing resources, the state would be able to concentrate "to doing those things which private individuals cannot do or do well—for instance, conservation of natural resources, and public property, the control of monopolies and restrictive practices, transport, and education, for none of which the private sector suffices;" and (4) deregulation would allow the state to redistribute resources to the poor in a way that would not "distort economic incentives, as does the transfer of money through taxation." De Soto believes that a deregulated state achieves those objectives by "facilitating and controlling the functions of the market, not by replacing it" (De Soto, 1989:252).

There are no guarantees in this world and no assurances that De Soto's formula would work. The book was published some years ago and a lot of things have happened since; in many ways the world is a different place. Yet allowing the present situation to continue in Mexico is unlikely to improve the situation. Something has to be done to close the gap between GDP and GPI. De Soto's strategy may be worth a shot.

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