

## Growth?

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There is practically no governmental speech or relevant document in which the growth of the economy is not manifest as a cardinal objective. Economic growth is like a happiness elixir because it reduces tensions, solves problems and facilitates daily life, in addition to generating wealth, jobs and opportunities. It is not by chance that everyone wants to achieve it. The problem is that, as we have seen in the last decades, it is not easy to attain. Diverse strategies have been tested, some more successful than others, but it is clear that a high growth rate and one that is sustained over time has not been procured.

Although there are many explanations for what is lacking, what does exist or what is required is sufficiently plain. For example, no one –or no reasonable person- doubts that productivity comprises a central factor, as is investment; nor is it in dispute that the NAFTA constitutes a key mechanism for attracting investment, increasing exports and solving balance-of-payments predicaments. It is also obvious that none of these factors suffices and, more importantly, that not all of the population has benefited across-the-board.

A comparison may explain the missing ingredients: in 1997 the world awakened to the news that the region of the planet that had experienced the greatest growth for decades, Southeast Asia, was in crisis: devaluations, sudden nosedives in incomes, price increases, loss in value, that is, all the elements that we Mexicans have lived through numerous times, but unknown in that zone. Soon, however, differences became apparent. Korea, for example, immediately understood that the problem has been too much investment in infrastructure and nearly null growth of productivity, leading it to an about-face in its strategy and a prompt return to an approach of sustained growth that has converted its population into a citizenry with one of the fastest growing incomes. Why haven't Mexicans achieved something similar?

In his study on the growth of the U.S. economy, Robert Higgs\* says that there are three types of capital: material, human and intellectual. "In the long run, it is impossible to build up one part of the capital stock without also building up the others... Witless men behind witty machines would be of no use. Understanding these interdependencies is at the heart of understanding the process of economic growth. To build factories is commonly recognized as an investment, but to obtain education, to purchase improved health, to seek new useful knowledge –these too are investments. And the rate of return on investment in a particular kind of capital depends not only on the size of existing stock but also on the available stocks of complementary kinds of capital."

In other words, for the economy to grow, productivity is key but for this to be achieved, investment is indispensable in the three types of capital: material, human and intellectual. Hernando de Soto adds another component: according to him, what distinguishes developed countries from those that are not is the existence of a transparent property regime. Thus, although his book is entitled "The Mystery of Capital", in reality there's nothing that mysterious about it. The great problem is to find the way for all of the ingredients that make growth possible to be present simultaneously in order for it to occur.

Therefore, while it's not due to chance that the political discourse of the last half century has been saturated with promises of growth –demonstrating the understanding of its importance- it's also not by

chance that governmental action (and the content of the discourse itself) reveals a total lack of understanding of the nature of the phenomenon of growth or an outright absence of willingness or capacity to make it possible.

It is obvious that there has been no dearth of attempts to elucidate the diverse components of the growth equation, but the tangible fact is that this is not being accomplished and part of the reason, it seems to me, is that the element of interdependence of which Higgs speaks has not been understood: the diverse ingredients must be present; none is adequate in itself. The case of Korea is suggestive: while there they are analyzing the requirements that the academic curricula should possess in fifty years, in Mexico we continue to be entrenched in a bureaucratic and union conflict typical of the past century, apparently insoluble. Korea has been attacking all of the components of growth, advancing on each front in the best manner possible. Education is perhaps the most visible of the components, but its transformation in institutional and legal matters is striking; above all, it demonstrates a perfect understanding of the centrality of trust and the diverse type of capital in growth.

In its “zero-based” proposed basis for next year’s budget, the government has opened an unusual opportunity. While it is impossible to alter the entire rationale of a governmental budget in a few months (and it is impossible to do it within the context of the presidential succession that inexorably dominates the national panorama at this moment in time), it is imperative to initiate a sensible discussion in this respect. Part of our problem is how public monies are handled and whether they serve to promote investments in the three types of capital required for growth. Another part deals with the issues of power that lie behind the lack of definition of property rights. None of these affairs is simple or easy to solve, but we should all take the opportunity to debate it seriously because only in this manner might its causes begin to be attacked.

\*The Transformation of the American Economy: 1865-1914

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