

Trust

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The young and already internationally renowned economist Jeffrey Sachs called on the then Secretary General of the Organization of Economic Co-operation and Development (OCED), Jean-Claude Paye, immediately after the collapse of the former Soviet Union. Sachs claimed that all that was needed to get the economy moving was to liberate Russia's animal spirits. Paye demurred, saying that he thought that institutions would matter too. Sachs countered, saying, "But you are French, and so you think that institutions are more important than they really are." To which Paye replied, "And you are young, and take your institutions too much for granted." And then he added, almost as an afterthought, "If you do not have good, strong institutions, all you will get will be the mafia."

If anything reveals the ambience of violence, criminality, marches and, in general, non-institutional behaviors in the country it is the absence of the legitimacy of Mexico's institutions. The existing ones generate distrust, thus rejection.

What Mr. Paye said to Sachs is perfectly applicable to Mexico. Things worked before, fifty years ago, because it was a much smaller society (nearly one third in population), distant from the economic circuits of the rest of the world, much less informed and, above all, in a much simpler environment. The government was the omnipotent entity and the networks within the society revolved, with greatest frequency, around family, school and diverse private organizations. It's not difficult to explain how, in that context, that everything appeared to function with normality: order, economic growth and relatively little political conflict.

Since then, all that has changed, inside and out. On the one hand, the economy, Mexico's as well as the world's, has experienced a revolution; the growth sources and engines are nothing like those of yesteryear and the complexity is infinitely greater. On the other hand, to the extent that the society grew and that it is achieving some margin of political liberalization, the country began to decentralize. That decentralization embodied the enormous benefit of dispersing the power and decision-making sources, but was so chaotic and disorganized that it was not accompanied by the construction of solid and functional institutions. Finally, while Mexico was undergoing economic crises and experiencing political decentralization (and, what's key here, decentralization of security entities) the context changed radically. The mix ended up being terrible for the country because it assailed it with a criminal phenomenon without governmental structures capable of containing it: our system of government was (is) of the XIX Century, but the criminal mafias are of the XXI. Paye thus understood it.

The crises –political, financial, security- ended any vestige of trust of the population in its authorities. An East Indian summed up his country in a way that is fully applicable to our context: India, he said, grows by night, when the bureaucracy is asleep. Two scholars, Acemoglu and Robinson, differentiated between inclusive and extractive institutions to illustrate the point: where there are checks and balances (limits to the abusive acts of the government) growth of the economy is possible; in contrast, in instances where there are no effective limits (judicial or legislative) and where rights are not equal for all of the players (and impunity, nepotism and the abuse of power persist), the potential for growth is limited. What's normal, they say, historically, are extractive institutions where, may I add, mafias proliferate.

It's not necessary to look very far in Mexico to determine the type of institutions that we have. Michoacán, Chiapas, various ex-governors and the entire gamma of actors and decisions comprise more

than enough examples of the nature of the reality. The lesson is clear: if we want to change the reality we have to construct inclusive institutions, that is, transparent ones as basic philosophy of government.

Douglas North, Nobel Prize in Economy, wrote that formal rules (laws) are required but that these are insufficient: just as important are the informal restrictions (norms of behavior, decency, codes of conduct) and, above all, the effectiveness of the mechanisms that make the laws and societal norms be complied with. When the government is weak, partial and dysfunctional, its capacity to fulfill its obligations is minimal while the capacity and disposition of the society to do so (public disgrace, expulsion from private institutions, etc.) is limited to the degree that community spirit is lacking.

An ex-Director of Pemex told me an anecdote that sums up our challenge: one day he asked the president of one of the largest oil enterprises in the world how they dealt with corruption in his company, the presumption being that the phenomenon is ubiquitous in the industry. The oil man answered that corruption is an exceptional phenomenon because when there's a case of it the company immediately files an accusation before the competent authority (that is, the dissuasive element is enormous), but above all because the society itself penalizes corruption in brutal fashion: when a case comes up, the family is banned from the social club to which it belongs and the children are isolated by their peers at school. That is, the cost of an infraction is so great that very few dare to commit one. At Pemex, concluded the public servant, when an employee transgresses the law, he is "incapacitated", then returns the following month, with a hero's welcome, as the representative of some supplier or contractor.

Constructing a regime of legality and trust entails enormous costs, but the benefits are immense.

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